UNIVERSITY OF PENNSYLVANIA

LIFE INSURANCE IN CHINA:
A STUDY OF THE FACTORS HINDERING ITS DEVELOPMENT

YIEN DUNG

A THESIS

IN ECONOMICS

PRESENTED TO THE FACULTY OF THE GRADUATE SCHOOL IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

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PREFACE

The present thesis is an analysis of the reasons why life insurance has not developed in China to any appreciable extent. Chapter I on "Introductory Survey" depicts, as far as information is available, the present status of life insurance in the country. Chapters II and III are devoted to discussing the political, economic and social factors which, being necessarily voluminous in nature, are frankly treated in a brief and summary fashion. Chapters IV and V relate to the policies and practices of the companies and to some of their outstanding problems. Finally, Chapter VI is given over to a study of the problem of foreign companies, a topic which is part and parcel of the many questions of foreign relations that inevitably present themselves in any discussion on things Chinese.

Needless to say the attitude adopted by the writer throughout the entire thesis is frank and impartial. He has spared no pains in baring some of the most vulnerable aspects relating either to present-day political, economic and social problems or to the general conditions of the insurance business as a whole. For this he feels sincerely apologetic; but after so many theses, dissertations, and treatises have been written by Chinese and foreign scholars on China's contributions and glories both in the past and the present—principally the past—a little touch on the dark side is perhaps not out of place. However, the writer is not by nature a pessimist.

For materials pertaining to the second and third chapters reference was freely made mostly to secondary sources. As little or no written material could be found on the insurance business in China due to the meagre volume of business now outstanding, resort was made to direct correspondence with company officials at home. Business policies in China have not yet developed to the extent that information is always readily and willingly imparted; but the co-operation the writer received in the preparation of the present treatise is truly gratifying. To preserve the originality of thought and also for reference purposes, the writer has appended below five lengthy letters that represent the sentiment of some of the persons actually in the business in regard to

the question under discussion. For obvious reasons, all names and signatures contained in the letters were omitted; but this should not prevent the writer from expressing his thanks to their authors and also to all others to whom thanks are due.

In particular, the writer is deeply indebted to Prof. S. S. Huebner for his careful reading of this thesis and for his generous suggestions, criticisms, and, above all, encouragement.

YIEN DUNG.

University of Pennsylvania,
Philadelphia, July 5, 1928.

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CHAPTER I

Introductory Survey

Early Development

The fundamental ideas of life insurance, namely, the protection of the family against losses sustained through the premature death of its head and the provision for the individual against disability and old-age dependency are not new in Chinese thought. Indeed, the very family system itself, emphasizing filial piety and interlocking dependency,[1] thus making the future welfare of the parents reasonably secure and lessening to a considerable extent the sufferings of the orphans and of the widows, is a form of insurance, though of a very crude nature. Outside of the family, a strong sense of social solidarity, which expresses itself in the many sharing the burden of the poverty, want, and misfortunes of the few, and in the readiness to give mutual aid, has long been known to be strongest in the *esprit de corps* of the minor social groups such as the clan, the village, the District, the Province, the guilds, and more recently the trade unions.[2] The earliest instance of old age pension fund sanctioned by the state is believed[3] to have existed in China at the time of the first rulers, known as the Five Rulers (approx. 2356–2205 B. C.). Thus, *Li Ki* describes the procedure followed by the rulers in nourishing the aged of the nation as follows:

"The lord of Yu, nourished the aged (who had retired from the service) of the state in (the school called) the higher hsiang, and the aged of the common people (and officers who had not obtained rank) in (the school called) the lower hsiang. The sovereigns of Hsia nourished the former in (the school called) the hsu on the east, and the latter in (that called) the hsu on the west. The men of Yin nourished the former in the school of the right, and the latter in that of the left. . . ."[4]

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[1] Infra, Ch. 3.
[2] Y. Y. Tsu, *The Spirit of Chinese Philanthropy*, p. 113.
[3] *Ibid.*, p. 24.
[4] *Li Ki*, tr. J. Legge, in *Sacred Books of the East*, ed. F. Max Mueller, Vol. XXVII, pp. 242, 466.

There is no record when life insurance in its present form was first brought into China. It is probable that prior to the entry of the New York Life Insurance Company into the country in 1884,[5] some British companies such as the Standard and the Oriental, had been writing business in Southern China, though necessarily on a limited scale. Thus, the mortality experience of the Standard Insurance Company for years 1846–1900 in China was quoted in many actuarial writings,[6] which shows that the business must have been introduced into China by the middle of the 19th century.

In 1899, the first life company was established under British registration in Hongkong and was known as the China Mutual Life Insurance Company, under the management of one Mr. J. H. Wattiewho maybe called the pioneer of the business in the country.[7] Following the China Mutual came the Shanghai Life Insurance Company, Ltd., also under British registration. This was later (1918) absorbed by the China Mutual. In 1905, the Sun Life Assurance Company of Canada came into the field, and following its wake was the Manufacturers Life of Canada. In the interim, considerable anti-foreign sentiment had been worked up in the country prior and subsequent to the Boxer Uprising, and in 1900[8] the New York Life ceased to have an active agency there. In 1907, this company and the Equitable Life Assurance Society of New York which had earlier entered the field both announced their withdrawal, their businesses being later, in 1921, reinsured with the Sun Life of Canada. The Sun Life further strengthened its position when in 1924 it absorbed the business of the China Mutual and consequently that of the Shanghai Life. Both the Sun Life and the Manufacturers Life are now maintaining separate divisions in North and South China.

For a while the withdrawal of the New York Life and the Equitable left no American representative on the field. However,

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[5] Arthur Hunter, in *Transactions of the Actuarial Society of America*, hereafter called T.A.S.A., Vol. XXVII, p. 262.

[6] Hunter, in T.A.S.A., Vol. X, p. 427; and S. C. Thomson, in *Proceedings of the Fourth International Congress of Actuaries*, p. 118.

[7] *China Year Book*, 1924, p. 1141.

[8] Hunter, *Loc. cit.*, p. 262.

on September 1, 1921, the Asia Life Insurance Company, Inc., received its charter from the State of Delaware, U. S. A., to do business in the Orient, with its main office in Shanghai. Thus, although the company contemplated writing life insurance wholly in a foreign field, it "voluntarily subjected itself to the stringent insurance laws of an American Commonwealth."[9] Later, in 1924, another American company, the West Coast Life Insurance Company of California, established an agency in Shanghai. In addition to these, there are at present one or two American companies having reinsurance agreements with companies operating in China. Among these is the International Life Insurance Company of Missouri, U. S. A.

The above category does not represent by any means all the alien life insurance companies up to the present. That they have been writing the major portion of the business on both foreign and Chinese lives we need scarcely question. A brief count of all the foreign companies in Shanghai disclosed the following nations represented.[10] France, 1; Japan, 2; United States, 2; Canada, 3; and Britain,[11] 10. There is still little knowledge what effect the agitations in recent years had on these companies as a whole, but most of them, if not all, have signified their intent to stay in the field, although their business will necessarily remain somewhat at a standstill until the coming of an ordered situation.

While the above discussion is centered mainly on alien companies because of their predominance and also of the fact that they will constitute an important factor in China's future insurance problems, it is not to be supposed that Chinese companies have remained entirely inactive. On the contrary, during the last ten to fifteen years, various insurance schemes have been launched by enterprising individuals, schemes ranging from the work of those who are honest, enthusiastic, but hopelessly inefficient to the deliberate fraudulent attempts of professional

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[9] Translated from Company's Chinese Prospectus, pp. 1, 2.

[10] *Insurance Year Book, Life*, 1927, p. A507.

[11] British companies, though outnumbering the rest, are not potent factors in the life field. Most of these have their names appear due to agency connections or reinsurance agreements. Some of them write life insurance as incidental to fire and marine business, their life business being probably very small. *China Year Book*, 1928, p. 1216.

profiteers. The experience thus gained was at once severe as it was bitter. But out of the chaos there remained several that have proved their stability. The China United Assurance Society, Ltd., a company financed entirely by Chinese capital and employing foreign experts was established in 1912[12] and has since made itself well known in the life field. The Venus Life Insurance Company was established in 1914,[13] later incorporated and registered in the Ministry of Commerce and Agriculture. Aside from these two which are in fact the main defenders of the Chinese cause, there are others and one finds also several department stores zealously establishing offices writing life insurance as a side line.

Appalling Lack of Public Records and Regulation

With all these companies in the field, one may next question as to what the actual volume of the business is at present. It is here that the investigator, as in so many other statistical investigations on Chinese conditions, meets with material difficulties. China has no insurance commissioner nor any functionary whose duty it is to see that the insurance companies maintain the proper reserve, furnish the necessary publicity, and, in short, comply with other basic requirements. The nearest approach to anything like government supervision of insurance was the reservation in a provisional constitution some years ago that the government maintained the right to regulate all insurance and exchanges in the future. In the absence of regulation, it certainly does not devolve upon the companies themselves to furnish the desired publicity. Nor is such demanded by the insuring public. In fact, the view is held—honestly by some companies and dishonestly by others who have impairments of capital and other financial short-comings to conceal—that there are certain so-called trade secrets to be kept and publicity would destroy their purpose.

The case with foreign companies is a little different. Here at least there is a semblance of government regulation. Unfortu-

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[12] *China Year Book*, 1924, p. 1141.
[13] *Company's Prospectus*, p. 1.

nately, under the present régime of extra-territoriality, these companies, though operating on Chinese soil, are under the jurisdiction of their several governments, and their regulation, therefore, is, at best, varied.[14] They are under no direct obligation to any Chinese body. Further, the several government statutes do not require in any case the segregation of the businesses of the different countries in which they do business either for statistical or other purposes, so that in the case of one big company, the Chinese business became so merged, statistically, with other tropical and sub-tropical businesses that it is not possible to determine its actual existing volume without considerable difficulty.

Volume of Business

Without authoritative public records, it becomes more or less guesswork to attempt to arrive at a figure as to the actual volume of life insurance in force in the country. The foreign manager of a Chinese company in Shanghai estimated that approximately 50,000 have taken advantage of the beneficial effects of life insurance protection.[15] Various other estimates have also been furnished to the writer in response to his inquiry. One answer placed the volume in all China on December 31, 1926, at the neighbourhood of G$50,000,000. Another calculated that at the end of 1926 one company alone had in force G$33,000,000 in North China,[16] which would represent more than half of the business in that Division. A third, writing in a much more pessimistic vein, "roughly estimated the total amount by native and foreign companies to be around G$15,000,000, probably not as much, and out of that amount G$6,000,000 would be on foreign lives."[17]

It is probable that the actual figure is above any of these estimates. However, the actual figure does not interest us so much as the conclusion that may be pertinently drawn there-

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[14] *Infra.*, p. 85, *et. Seq.*
[15] A. J. Hughes, *Life Insurance in China*, in *China Weekly Review*, December 4, 1926, reprinted pamphlet, p. 1.
[16] Appendix II, Letter 2, p. 112.
[17] Appendix II, Letter 4, p. 118.

from. It is true that there is more insurance written today than twenty years ago, but it cannot be denied that the existing volume is ridiculously small, considering the fact that life insurance has been introduced into China for at least fifty years. During about the same period, Japan has built up her business steadily, though in no phenomenal fashion, and by the end of 1925 had on the books of forty-two of her leading companies a volume outstanding of Yen 4,712,955,000, in addition to Y. 1,053,779,000 of State Life Insurance.[18] India, another of China's neighbours, with all her beliefs in mysticism and fatalism, had in 1925 a volume of G$228,702,000.[19] And America, the land where life insurance thrives and prospers, has accumulated by the end of 1927 a volume exceeding G$87,000,000,000,[20] a truly formidable figure!

Distribution of Business in Locality and Kinds of Policies

The major portion of the business outstanding is written in and around the cities along the sea-coast or near it. No definite figures are available, but it is known that the foreign companies confine their operations in and around the Treaty Ports, while although some of the domestic companies have made an attempt to be represented by agencies in such distant provinces as Szechuen and Yunnan the amount written there is negligible. The reasons are apparent. Insurance is primarily a Western product; hence by force of physiography it caters to the needs first of those living near the contact of Western civilization. Besides, better facilities are found in the cities for medical examinations, the making of investigations and the adjustment of claims. It is also argued that the element of moral hazard is considerably lessened, because if the insured lives far in the interior there is a greater possibility for substitution and fake claims. Finally during the past one or two decades, there has been a continuous flow of population and capital into thriving centers along the sea-coast, both for commercial, industrial,

[18] *Japan Year Book*, 1927, pp. 410, 411.
[19] Estimate by Leroy A. Lincoln, in *Proceedings of the Association of Life Insurance Presidents*, 1927, p. 60.
[20] Estimate by A. A. Welch, *ibid.*, p. 11.

or other purposes. The industrializing process that has been going on in these centres has brought with it a salaried class whose income now rests solely on its earning capacity. It is to the well-to-do who have the ability to pay and the wage-earners who need insurance protection that life insurance in China now largely caters; and these two classes are found in the cities along the sea-coast.

As to the kind of policies sold, the most prevalent in China is the Endowment which provides for (1) the payment of the face value in the event of death at any time within the period insured and (2) the payment of the full face amount if the insured survives the stipulated period. Nearly all the Canadian and Chinese companies limit themselves to this variety. There are also sold pure endowments for children in the form of educational policies which provide for the payment of the face value if the child survives the period, and the return of the premiums paid, usually plus a stipulated rate of interest (3½ per cent), if the child dies prematurely. One Chinese company issues pure endowment for men with provision for the return of all premiums paid at 3½ per cent simple interest should the insured die within the period. Recently, the two American companies, particularly the Asia Life, have gone extensively into other forms of insurance other than endowments. The prospectus of one of these companies offers a variety of policies, including the Whole Life, 10-, 15- and 20-Year Limited Payment Life, 10-, 15-, 20-, 25- and 30-Year Endowments, Whole-Life Endowments with disability benefits, children's educational policies with return premium feature at 4 per cent simple interest, and Double-Payment Endowments. Participating policies, usually with coupons attached, are sold by all the companies mentioned. No company has yet offered any joint-life policies which are so useful for the protection of partnerships, the prevailing form of business organizations in the country. Term insurance, which provides temporary protection but at low initial cost, is bought only at sporadic instances and is usually found in operation under the extended insurance clause; and, to the writer's knowledge, no annuities, except as an optional mode of settlement, have yet been sold, although it is the concerted opinion among the insur-

ance fraternity in the Orient that the mortality rate among Chinese lives is high and the yield from investments in general satisfactory.

No Chinese Experience Mortality Table

Unlike Japan,[21] China has not yet constructed a mortality table of her own. Only sporadic attempts at systematic mortality investigation have been made by a few of the companies concerned. The mortality experience of the China Mutual and Shanghai Life Insurance companies covering a period of about twenty years was actuarially tabulated,[22] and quite recently the China United Assurance Society has also tabulated her own experience covering a period of fourteen years (1912–1925) with 18,927 lives (males) under observation,[23] but neither of these results has yet appeared in print. Occasionally, papers relating to Chinese mortality experience are published in various actuarial journals in England and America or otherwise presented in the International Congresses of Actuaries;[24] unfortunately, most of these materials are purely illustrative, and, in the present writer's opinion, neither extensive nor intensive enough to be actuarially conclusive.

In the absence of a standard mortality table, different companies resort to individual judgment in the selection of a proper standard, with the result that a number of foreign experience mortality tables come into use. One company employs the American Experience Table at 4 per cent with extra mortality loadings varying from 125 per cent–200 per cent depending on climate, living conditions, locality and medical facilities. Another uses the British Offices OM(5) Table extended ten years, at 4 per cent on participating policies and 5 per cent on non-

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[21] The first mortality table in Japan was compiled by Dr. R. Fujisawa for the Nippon Life Insurance Co., from population statistics for years 1881–1887. The first Japanese experience table was compiled by Mr. Kaitaro Ebihara from 480,000 insured lives of the Meiji, Teikoku and Nippon Life Insurance companies from their foundation up to 1907. (*Japan Year Book*, 1927, p. 408).

[22] Hughes, *op. cit.*, p. 5.

[23] Courtesy, Mr. T. Y. Chang, Actuary, China United Assurance Society, Shanghai.

[24] *Infra.*, pp. 94–95.

participating policies. Several of the companies use the full American Tropical Experience for South China, that is, roughly, south of Lat. 30. In North China, the Semi-Tropical Table is used, which is the mean of the full American Tropical and the American Experience tables. At least two of the companies prefer to use for North China the Sub-Tropical Table which is the mean of the full American Tropical and the British Offices OM(5) Table, thus possibly exhibiting a slightly higher mortality. In North China, one company uses, for white lives alone, a special table of mortality constructed from the mean of Sub-Tropical and domestic rates.

All the tables employed exhibit a much higher mortality rate than American or European (including Russian) experiences; and this can mean only one thing—that the premiums derived therefrom are correspondingly higher. In fact, a survey shows that the rates charged in China range from one and a half to two times the "domestic" rates quoted on the North American continent.[25]

Summary

In the foregoing paragraphs, we have traced briefly the development of life insurance in China and have brought out some of the more outstanding headlights in the business such as (1) the predominance of foreign companies; (2) the weakness of Chinese companies; (3) the lack of public records and regulation; (4) the limitation of the business, in kind, to endowments, and in locality, to commercial centers; and (5) the absence of a standard Chinese experience mortality table. Such other topics as policy provisions, investment policies, production methods, etc., though naturally falling within the scope of the present survey will be deferred for later discussion. The important point to note for the present is the ridiculously small amount of life insurance in force in the country, and, in general, its slow development in spite of an early start in the middle of the 19th century. The following chapters are devoted to a serious study of the reasons for this particular phenomenon.

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[25] *Infra.*, pp. 67, 68.

CHAPTER II

The Political and Economic Background

Political Factors

Wars and Civil Strife

Life insurance in China has lived through a period coincident with one of the most trying and turbulent eras in the long history of the Chinese nation. Conditions during this period were so thoroughly disgusting that at different stages the very political existence of the country was seriously endangered and she could find her way out only after material and constant impairments to her sovereignty. A tangible illustration of these troubles and trials is seen in the number of wars fought against, as well as *between*, foreign powers on Chinese soil, and the many civil revolutions and disturbances.

The first military conflict against a modern foreign power began in 1839, with Britain, ending with the Treaty of Nanking in 1842. In 1858, Britain mobilized her forces once more, and with France as her ally, marched on to Peking, resulting in another humiliating treaty for China. Meanwhile, disturbances had become general, due to the Tai Ping Rebellion which, beginning in 1850, became a serious menace to the Manchurian throne. This was not subdued until 1864. Twenty years later, in 1884, another war broke out with France; and in 1894, that with Japan. The Boxer Uprising in 1900 brought further disaster to China's doors when the allied forces of eight foreign powers marched almost without opposition through the country, and Peking fell for the second time. In 1905, the Russo-Japanese War was fought in Manchuria, which is Chinese territory. Then came the revolution of 1911. The outbreak of the World War in 1914 again found two of the belligerent powers, Germany and Japan, fighting desperately within her own doors at a time when she had not yet joined forces with the Allies. The monarchial movement of Yuan Shih Kai in 1917 once more brought

about internal dissension. Since then China has not yet seen the semblance of national unity. No more foreign wars have been fought; but the dominant issue became an internal one. The strife was so acute that, in the observation of a foreign writer,[1] "within a space of fourteen years, forty-three governments have been set up and deposed in Peking, eight presidents have come and gone, and China now finds herself without a central ruling authority, and exposed to civil and internecine warfare on a vast scale—a nation without a government."

In all of the wars fought, China herself furnished the battle-ground, even in those where the actual participants were foreign powers and where China was ostensibly a side-line spectator. The effects, therefore, upon her were direct as well as immediate. Furthermore, in none of these wars was China ever successful, as a result of which, she had either to pay heavy indemnities, or to cede territories, or both. The effects were immeasurably greater than if the tides of wars had turned out differently. Finally these conflicts took place in nearly every part of the country. The Russo-Japanese War was fought on the northern province of Manchuria; the clash with France was centered mainly in the southern protectorate of Annam; the Boxer Uprising and the subsequent war with the ally powers involved largely the central provinces and those along the sea-coast; minor troubles frequently arose with Russia along the Northern frontier; and at one time British forces actually penetrated into far-off Eastern Turkestan. Civil strife in more recent years has seen not only Peking changing hands between rival factions on many occasions, but also other cities, like Canton in the South, Hankow, the "hot-bed" of revolution in the West, and even Shanghai on the Eastern seacoast, sharing the same fate of war and military disturbances at various times—simultaneously, chronologically, and sporadically. In short, no considerable portion of the country or of the people has had the good fortune of being spared.

The Effects on Life Insurance

The effects of wars and civil commotion on the business of life insurance are not always unfavourable. Life insurance in the

[1] P. T. Etherton, *The Crisis in China*, p. 17.

United States of America has especially earned the reputation of "thriving at times of adversity".[2] Thus, in both the period of the Civil War (1861–1870)[3] and that of the World War,[4] life insurance in that country increased materially in volume. A part explanation may be found in the fact that at the close of each of these conflicts, there was a general decline in the purchasing power of money,[5] so that the increase in the volume of life insurance bought for adequate protection was more *nominal* than *real*. However, the presence of war with its "daily chronicle of death and disaster" tended to induce many to seek protection against possible business misfortunes, and against the possibility of death intervening before a substantial provision for dependents could be made.[6] Unfortunately, this is subject to two important presuppositions: (1) that the beneficent effects of insurance protection have been grasped and understood by the masses; and (2) that the stability of the business has been reasonably established, under a measure of strong government supervision. As yet, neither the first condition,[7] nor the second,[8] is quite attained in China.

Under these circumstances, it is logical to conclude that the effects were unfavourable, in at least two respects. In the first place, there was the discouragement to the flow of capital into the business because expenses were high and life and property generally insecure. A lack of confidence prevented most people from investing in long-term securities[9] or in undertakings involving the uncertainties of the future. This is particularly important, since it dealt life insurance a heavy blow in its formative period when capital was so badly needed. Secondly, companies already in the field were sorely affected. This may be illustrated by the results of the Great War upon British Life Offices as

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[2] C. K. Knight, *History of Life Insurance in the United States to 1840*, p. 159.
[3] *Ibid.*, pp. 138–143.
[4] C. K. Knight, *Advanced Life Insurance*, pp. 8, 9.
[5] *Ibid.*, p. 10.
[6] *Op. Cit.*, p. 159.
[7] *Infra*, p. 83.
[8] *Infra*, p. 29.
[9] J. H. Nelson, *Changing Factors in the Economic Life of China*, Trade Information Bulletin, U. S. Department of Commerce, p. 4.

enumerated by a British actuary:[10] (1) heavy immediate mortality as the direct result of war;[11] (2) "premature" mortality—the shortening of good lives through wounds, sickness and privation; (3) lessened vitality of the nation through the loss of so much of its manhood and the increase of worry in civilian life; (4) depreciation in securities; and (5) increase in income taxation.

Perhaps it need not be pointed out that Chinese wars in the past were fought by mercenaries who were too ignorant to begin with, and too poor to purchase insurance protection. The companies, therefore, have little to fear from increased mortality in this direction; but external warfare and internal strife are often accompanied by such additional misfortunes as loot, pillage, murder, arson, and rape, all of which were fit occasions for worries, not to mention their adverse effect on the rate of mortality and on the ability of the companies to transact business. Thus the first three conditions just mentioned are found applicable to China as well. The depreciation in securities may be disregarded because stocks and bonds have not yet become an integral part of China's industrial life, and because, also, in the absence of statistical records, it is impossible to determine accurately their appreciation or depreciation in the past. In this connection, it need only be said that the experience of one Chinese company in the matter of investment in securities during the turbulent years since 1912 has been found extremely satisfactory,—the only consoling factor in the entire story of life insurance during the last fifteen to twenty years.[12]

Thus far, the companies have been spared from the heavy incidence of taxation, for the simple reason that the volume of business, even including that of foreign companies outside of Chinese jurisdiction, is too small to attract public attention. This is at once a disadvantage as well as an advantage. It is a disadvantage because it denotes the complete lack of government

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[10] D. H. Gordon Smith, F.C.I.I. *Insurance in Time of War*, Journal of Chartered Insurance Institute, Vol. XXL, 1918, p. 77.

[11] Later estimate by another British actuary showed that for the five war years the total death claims of all the British Life Offices were about 4,000,000 Pounds Sterling a year above the corresponding pre-war figure—H. Brown, *Effect of the War on Life Assurance*, J.C.I.I., Vol. XXIV, 1921, p. 14.

[12] Hughes, *Op. Cit.*, p. 9.

supervision, thus depriving the business of its beneficent effects,[13] but it is also an advantage, negatively, in that under the present chaotic conditions no one could tell what the faction in power would do and any tax measures proposed would undoubtedly tend to aim at the accumulated capital, surplus and reserves of the companies. Even peace-time taxation in America has its blunders,[14] and the experience of the British Life Offices in the recent Great War was none too favourable.[15] At the same time, absence of government interference constitutes a blessing in disguise to the extent that these companies are then given considerable leeway in their investment policies, and are not subject to restrictions which, though unquestionably safe, do not always permit them to give full justification of their earning capacity.

Boycotts, Strikes, and Other Disturbances

Aside from external warfare and internal strife, such additional occurrences as strikes, lockouts, and boycotts are growing increasingly frequent. In a study of strikes in China for the years 1918 to 1926 inclusive,[16] the following figures were found:

STRIKES, 1918–1926 Inclusive

Number reported	1232
Strikers Involved	1,813,291
Average Number of Strikers per Dispute	2768
Working Days Lost	6158
Duration per Strike	9.18 days

Frequently accompanying these strikes were the boycotts of foreign products and commercial organizations. The frequency of these boycotts will not be dwelt upon here but their size and influence may be seen by the following description of a recent (1925) boycott against the British in South China:

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[13] See C. K. Knight, *Advanced Life Insurance*, pp. 260–261.
[14] See, for instance, S. S. Huebner, *Life Insurance*, pp. 32–34.
[15] The reduction in the net rate of interest due to the high rate of income tax was equal to wiping off five years of bonuses—H. Brown, *Loc. Cit.*, p. 15.
[16] Ta Chen, *Analysis of Strikes in China*, in Chinese Economic Journal, October, 1927, p. 847.

". . .Canton has been pecking at the British Empire for nearly seven months.[17] Gradually the British Empire has become aware that what seemed a mosquito has poison in its bite. In 1924 Hongkong's harbor averaged 210 vessels a day. When Canton began to strike against Hongkong, Hongkong's shipping dropped to 34 vessels a day. Real estate values shrank, they have been cut in half. Hundreds of little firms failed. The shares of the great British banks, the strongest financial institutions in the East,. . . dropped more than a hundred points in value. In six months, British shipping at Canton fell from nearly three million tons in 1924 to a third of a million in 1925. To save Hongkong, the British Government at London voted a loan of three million pounds sterling. . ."[18]

The economic effects of these strikes and disturbances need not detain us here. Suffice it to note that whatever the settlement, if any at all, a strike always brings sufferings to both the employer and the strikers concerned, but above all to society at large. Ordering a strike is throwing the industrial system out of gear, and is equivalent to sending a chill through the industrial backbone of a nation. Where these chills are too frequent, the results are much more undesirable. Insurance, therefore, is indirectly affected. Boycotts, however, produce effects on life insurance that are direct and immediate, as these are largely shouldered by foreign life companies which are at present doing the bulk of the business. Little or no new business is written. Where the cash value is small or nil, as in the first few years, the policies are lapsed and where it has mounted perceptibly they are surrendered. Indeed, the withdrawal of the New York Life from China was directly attributed to the boycott in 1900.[19] More recently rumours were not rare in insurance journals about other companies planning to withdraw from the field, but these were never confirmed. In the meanwhile so long as the alien and the Chinese prospect fail to reach an amicable understanding, so long will life insurance sold by the foreigner remain at a standstill.

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[17] The duration of the entire boycott was seventeen months. See Scott Nearing, *Wither China?*, p. 155.

[18] Lewis S. Gannett, *Canton—Hope of China*, Nation Magazine, March 31, 1926.

[19] Arthur Hunter, T.A.S.A., Vol. XXVII, p. 262.

Political Factors Not Wholly Responsible

Lest one be mistaken, it should be cautioned that too much blame cannot be laid on political factors alone. Political instability has been pointed at as the sole and infallible cause of all troubles by the average "die-hard" foreign capitalist with as much tenacity, perhaps less logic, than the opposing camp who chooses to pick on foreign capitalism. In the words of one writer, "political instability has been no bar to progress."[20] Indeed, "accepting war as inevitable, the Chinese continue to work in any area where peace temporarily resides, or where they can work without yielding too great a share of their profits to the warlords."[21] In the last fifteen years, there were established in China no less than one hundred modern Chinese banking institutions with a total paid-up capitalization of from $150,000,000 to $200,000,000 silver.[22] Giving due allowance to the falling purchasing power of money, her total foreign trade has advanced from Hk. Tls. 843,617,434 in 1912, a normal year, to Hk. Tls. 1,789,995,145 in 1924, or to double its monetary value.[23] Her commerce has developed to such an extent that "out of the five major sea-ports in the world in point of tonnage, China already possesses two."[24] Undoubtedly, without quoting unnecessary figures, it can be said that there has been increase in her outputs in coal, iron, steel, cotton and its products, paper, matches, in fact, in most, if not all, of her young industries. Even the allied fields of insurance, such as fire and marine, have prospered. In these two branches, the aggregate capacity of all the companies in 1924 was enormous, and more than adequate for the business available, resulting in keen competition.[25] It appears, therefore, that the life business has perhaps alone lagged behind. For this there must be reasons other than political ones.

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[20] Nelson, *op. cit.*, p. 9.
[21] Quoted from "*Wars' Effects on Industry in China*," China magazine by the China Society of America, January, 1928, p. 5.
[22] Julean Arnold, *China, Commercial and Industrial Handbook*, 1926 edition, p. 175.
[23] *Ibid.*, pp. 26–27.
[24] Gowen and Hall, *An Outline History of China*, preface, p. V.
[25] *China Year Book*, 1924, p. 1139.

Economic Factors

The Stage of Industrial Development

We may begin our discussion of the more important economic factors affecting life insurance by inquiring as to in what stage of industrial development China finds herself at present. It is readily recognized that Western nations, stealing a start in the eighteenth century, have by this time left behind them two to three hundred years of industrial development, and are now securely lodged in a highly developed industrial stage, with nation-wide, sometimes world-wide, credit economies. While these nations, then, are blazing the way far off in the horizon, China, like the rest, is still slowly plodding along the same beaten trail. True, mention has been made of progresses in some directions, but these are only surface indications, denoting, at best, a transitory period. We need to note that by far the overwhelming portion, some say 85 per cent, of the populace is engaged in agriculture, and that factories, industries, banks and department stores flourish only in certain places. If the consumption of coal and iron and the harnessing of water power for electrical uses are indications of the industrial development of a nation, then the following estimates by Mr. Julean Arnold, the American Commercial Attaché in China, are significant:

"Nothing better exemplifies China's backwardness in a modern economic sense than her per capita consumption of iron and steel, which is one one-hundred and eightieth of that of the United States, one one-hundredth of that of England or Germany, one-tenth of that of Japan, and one-thirtieth of the average per capita consumption of the world generally. . . . China has 14 blast furnaces with a maximum capacity of 850,000 tons annually but which produced in 1923 about 300,000 tons. The United States has 450 furnaces, which in 1922 produced 27,000,000 tons of pig iron. As for coal, China produces about 25,000,000 tons annually and the United States, 500,000,000 . . . The United States annually produces 17,000,000,000 kilowatt-hour units of electric power by the utilization of her water-power resources. China, which is equally rich in water power resources, has as yet done practically nothing to avail herself of her resources."[26]

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[26] Julean Arnold, *China's Economic Resources*, in Occidental Interpretations of the Far Eastern Problem, by Woodhead, Norton and Arnold, pp. 192–194.

Admittedly, there is nothing to be denied. China is only a newcomer in the Industrial era, most of her industries being still in the handicraft stage. As one writer[27] says, for the Chinese artisan there are no fixed hours of labour. He works from sunrise to sundown, in a shop in the small cities, usually within view of passers-by, where he can lay down his hammer or shears to participate in a quarrel or a conversation. Under him are his apprentices who are being taught the trade and who were articled to him by the parents sometimes for their food, sometimes upon payment of a sum by the parents.

What then, we may ask, was the condition of insurance in the West two or three hundred years ago prior to its attainment of the present industrial development? The answer is obvious and should serve to clear away the dark clouds of misgiving now hovering over China's horizon. While various insurance schemes had been in existence in antiquity,—a state pension fund having been worked out in China as early as 2255 B. C. to which we already had reference—"it may be taken as established that no plan of life insurance as we now understand it had been contemplated by any company or society, or considered by any legislature in Europe prior to 1760."[28] In 1762 the total amount of life assurance in Great Britain is said not to have exceeded 350,000 pounds.[29] Marine insurance had an earlier development,[30] but who will deny that it thrives most with the present expansion of shipping and commerce? The beginning of workmen's compensation insurance was not far to trace; the law of negligence particularly with reference to master and servant was not recognized until 1837.* Other forms of insurance, including aeroplane, motor car, use and occupancy, etc., are recent both in origin and growth.

Clearly some of the outstanding earmarks of the twentieth century are (1) the adoption of science; (2) the exercise of fore-

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[27] George E. Sokolsky, in *China Year Book*, 1926, p. 895.

[28] Holcombe, J. M., *Observations in Life Insurance History*, Yale Insurance Lectures, p. 19.

[29] S. S. Huebner, *Life Insurance*, p. 4.

* C. A. Kulp, *Casualty Insurance*, pp. 33, 34.

[30] Walford, Cornelius, *Early History of Life Insurance in Great Britain*, Yale Readings in Insurance, p. 57.

thought and (3) the sense of co-operation. There is no need to elucidate; but how closely does the business of insurance tally with these essentials! Further, the sharp demarcation of labor and capital, with its accompanying loss of the personal relationship between employer and employee, once so characteristic of the handicraft stage, has augmented greatly the number of wage-earners whose income rests solely on their earning capacity instead of on property holdings. Increasing diversification and complication of modern economic functions have created many classes of people such as lawyers, teachers, traders, bankers, salesmen, engineers, architects, etc., whose profession is such that insurance protection is to them a necessity.[31] The growth of business and the need of specialized business talents have compelled employers to insure the lives of their valuable employees: while the existence of legal and social demands in the form of inheritance taxes, etc., have given life insurance a wider use as property insurance, namely, to protect against the shrinkage of estates due to post-mortem expenses and various forms of taxation at death.

Insurance, then, we may broadly generalize, is the product of the industrial era. Where such a stage is not yet attained as in the case of China, is there any wonder that it has little or no development? In fact, we need to go even further. At present China is in a transitory period, and transition almost always means sufferings. The case of India, with all her hardships and sufferings due to transition, is most vividly depicted by her able economist, Radhakamel Mukerjee.[32] The case is no less true with Japan.[33] Much of the same thing may be expected of China. For the present at least, such injurious effects of the factory system,[34] as the exploitation of child and woman labour, the use of unguarded machineries, and the institution of long

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[31] See S. S. Huebner, *Economics of Life Insurance*, pp. 22–32.
[32] See R. Mukerjee, *Foundations of Indian Economics*, Chs. 1 and 3.
[33] Herbert G. Gowen: *Asia, A Short History*, Ch. XXIV.
[34] Thomas Tchow, *Present-Day Industrial Situation*, in China Today Through Chinese Eyes, pp. 10–21.

day and night shifts[35] may be reasonably expected. These in turn will lessen the vitality of the nation, thus reacting ultimately to the detriment of life insurance.

The Place of Economics

Just what is the position of economics in the Chinese national life? What place does it occupy in her religious, educational, social and political institutions? The answer to these questions will furnish part explanation of the stagnation of the business of insurance.

Nearly all the religions in the Orient mingle economics with ethics,[36] and Confucianism is no exception. Confucius taught that the former must be subjected to the latter.[37] Both Taoism and Buddhism are spiritual, disregarding material welfare. The teachings of Taoism were such that Wang Yen (256-311 A. D.),[38] an avowed Taoist, would not even utter the word money. The philosophy of Buddhism was to extinguish human wants, and make life as hard as possible, thus neglecting economic problems.

Both in education and society economics occupies a low place. China's old educational system never had given any weight to the studies of economics and commerce,[39] and while modern institutions of learning in the country do give varied courses in economics, the subject of insurance is neglected. Moreover, Chinese society is divided, in the main, into four classes: Scholars, farmers, artisans, and merchants. In the social strata, therefore, merchants occupy the cellar position. It can easily be seen how

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[35] According to Sir Sidney Barton, British Consul General in Shanghai in "*Papers Relating to Labor Conditions in China*," p. 18:

"The normal hours of labour in local (Shanghai) British owned cotton mills are 23½ worked in two shifts of 12 hours, allowing only two spells of 15 minutes each; in the Japanese owned mills 22½ hours are worked in two shifts of 12 hours, allowing two spells of 30 minutes and of 15 minutes; in the Chinese mills shifts are generally worked for 14 hours with no spells. Hours worked by children and young persons are the same as those worked by adults."

[36] Lewis Haney, *History of Economic Thought*, p. 34.

[37] H. C. Chen, *Economic Principles of Confucius and His School*, Vol. II, p. 718.

[38] *Ibid.*

[39] *Ibid.*, pp. 719–720.

insurance, which is a branch of commerce and intimately related to selling, is wrongly compared to "peddling" and relegated to an inferior position.

Politically there is a reason for China's static economic life. Irrespective of wars and disturbances, the Chinese government has, since the Han Dynasty,[40] adopted the doctrine of Lao Tsu, the *laissez faire* policy. Actual administration by the Central Government is an impossibility due to the unwieldy size of the nation and the lack of a good system of communication and transportation facilities. Consequently, except in tax measures, little has been done by the government in developing the country economically.

Practical Difficulties

In addition to the actual and philosophical background, there are practical economic difficulties to be met. Life insurance can never attain its natural growth unless these are removed or their conditions effectually bettered. They are, in the main: (1) the lack of adequate communication and transportation facilities; (2) the confusion of currencies and (3) the abject poverty of her people.

(1) Lack of Communication and Transportation Facilities. The present condition of Chinese communication and transportation facilities is best summarized in the words of a former Chinese Minister of Communication:[41]

> "China has completed only 6000 miles of railways, 80,000 miles of telegraph lines, 13 wireless stations and 28 telephone offices, during the last several scores of years since she was first opened to foreign trade. There has been no government navigation enterprise. The total registration of privately owned commercial vessels is approximately only 410,000 tons."

One might add to the above the mileage of highways in the country. China is said to possess 2000 miles of "imperial roads",[42] but only the traveller knows how these are mostly

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[40] Chen, *Op. Cit.*, p. 722.
[41] Yeh Kung Cho, in Official Report to the Chief Executive in 1925, *China Year Book*, 1926, p. 292.
[42] *China Year Book*, 1928, p. 326.

narrow tracks, footpaths, or roads untraversible by any vehicle but the Peking cart. The "Good Roads Movement"[43] and other similar projects have been responsible of late for the construction of many motor highways. Shansi, the "Model Province", is believed to have built nearly 1000 miles of good roads within the past few years; unfortunately, the irony of the whole situation is that while these roads were intended for motor traffic, there are in the aggregate not more than 75 motor vehicles in the whole of that province![44]

That such facilities are sadly inadequate for a country of China's size is evident. The total area of her territory is estimated at 4,278,352 sq. miles.[45] The size of her population, though variously estimated,[46] is believed to be at least 300,000,000. The disparity in communication facilities between China and other countries of similar vast potentialities is brought out in the following table compiled by a recent writer:[47]

	CHINA	AUSTRALIA	CANADA	U. S.
Railroads (per 10,000 people).....	0.2 miles	46.5 miles	44.4 miles	23.7 miles
Railroads (per 1000 sq. m.).....	1.6 miles	8.8 miles	10.7 miles	72.4 miles
Post Office (per 10,000 people).....	0.8	14.9	13.7	4.7

Such inadequacy hinders materially the development of all business, not to say life insurance. To the latter especially, it offers peculiar administrative difficulties. For one thing, it discourages extension of the business into interior provinces, thu

[43] The "Good Roads Movement" was launched in Shanghai on May 5, 1921. Among other projects, it advocated a good road from Shanghai to Nanking and another from Shanghai to Hangchow.

[44] Julean Arnold, *Commercial Handbook of China*, p. 273.

[45] *China Year Book*, 1928, p. 1.

[46] See Walter F. Willcox, *China's Population, 400,000,000 or 300,000,000?* Chinese Students Monthly, November, 1926, pp. 23–29.

[47] Charles Hodges, *Economic Background of the Chinese Crisis*, Annals of the American Academy of Political and Social Science, July, 1927, p. 54.

robbing it of the benefits of a widespread distribution of risks. It makes difficult the investigation of applications and the supervision of agents and medical examiners. Then there is the inevitable delay with every settlement of claims. In these days one speaks complacently of the prompt services of the telephone, telegraph, radio and other means of communication. Unfortunately there are still vast regions on earth where news travels slowly. The news of the earthquake in Kansu[48] Province, involving the destruction of many cities and the loss of many lives, did not reach the civilized world until fully two months later, although the seismography records of an Observatory in Washington, D. C., U. S. A., showed that it had been correctly registered on the day of its occurrence. In the case of an individual death, it would take many long months for the report to reach the "home" office in a distant city and in turn for investigations, settlements and other processes to be followed. By the time help actually arrives, the bereaved family would have become totally destitute.

Confusion of Currencies

The Chinese currency system, if there is any system at all, is certainly very chaotic. Such "chaotic eccentricities would drive any Occidental nation to madness in a single generation."[49] At the present time there are at least the following forms to reckon with:[50] cash, copper token coins, taels based on silver bullions, dollars, "small coin" silver, and "big money" small coin, without taking into consideration the government bank, "cash shop", and "small coin" notes. So far as the more principal forms are concerned, as the tael and the dollar, a Chinese professor[51] once enumerated sixty-seven well recognized tael standards in the country. Later he added five more to the list and cautioned, in passing, "that a writer recently traced more than 170 taels in use" but that "in practice there must be more."[52]

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[48] On May 23, 1927; *New York Times*, July 29, 1927, 1:6; July 30, 4:4.
[49] S. R. Wagel, *Chinese Currency and Banking*, p. 42.
[50] Frederick C. Lee, *Currency, Banking and Finance in China*, p. 8.
[51] D. K. Lieu, *Chinese Political and Social Science Review*, June, 1918.
[52] D. K. Lieu, *China's Industries and Commerce*, p. 120.

Even in the same locality where the same tael is supposedly in use, one would face difficulties due to varying scales. Writes Spalding:[53]

"Every district has its own scale, and every shop in that district differs just a trifle from other shops in reading the scale. If one weighs out 10 taels of silver at home and then goes to a shop to turn it into cash, he will find that he has 9.98 taels in one shop, 9.97 taels in another, and perhaps 9.99 in another, but never quite 10 taels."

The earliest dollar was coined in 1835.[54] Since then there were at least 10 various forms of provincial dollars coined during the existence of the Chinese Empire, with varying degrees of fineness and of different weights. The institution of the Republic has put into circulation five more types.[55] In addition one has to take into account such foreign dollars in circulation, notably the "Mexican", the "Caroline", the "Hongkong British Dollars", and at one time the American "Trade Dollar".

The above brings out only a fraction of the chaos. To go into further details will take us into greater confusion. Suffice it to state that without a stable currency little business can be done, which in its turn affects adversely the growth of insurance. The problem of investments would be particularly perplexing, for the uncertainty of the medium of exchange necessarily demands the investor to be unduly cautious. On the one hand he is prevented from making best use of the principle of diversification as far as geographical distribution of his investments is concerned, and on the other he is forced to confine his operations to more stable and tangible, though less easily marketable and transferable, properties such as real estate and property holdings. It means also considerable administrative difficulties, and, indeed, extraneous labour. The Sun Life of Canada, operating in as many as thirty different foreign countries, writes policies in twenty-three different currencies,[56] while the Asia Life, doing

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[53] W. F. Spalding, *Eastern Exchange, Currency and Banking*, p. 363, *et. seq.*
[54] Lee, *Op. Cit.*, p. 19.
[55] *Ibid.*
[56] Fred. A. Howland, *America Pre-eminent in Life Insurance*, Proceedings of Life Insurance Presidents, 1926, p. 118.

business almost exclusively in China,[57] finds it necessary to sell policies in Mexican dollars, United States or Canadian Gold Dollars, Pounds Sterling, Japanese Yen, Hongkong Dollars, Shanghai Taels, Hankow Taels, and Canton Subsidiary Coins.[58] This difficulty gives rise to the peculiar provision on "Currency" in some of the company prospectus that

"No premium or other payments to be made under the Policy shall be accepted by the Society if not paid in the currency in which this policy is issued or at the market rate of exchange obtainable for the same currency at the time the payment is made."[59]

Provisions like this and ingenious exchange tables may furnish part solution of the problem. However, the fact remains that so long as in the currency situation there is confusion, and uncertainty and complexity,—in short, so long as within one country money in one place is not good in another,—so long will the growth of all business, including insurance, be materially hindered.

Foreign companies having branches in China occasion special difficulty with reference to this question of currency. Not only are there manifold difficulties in the currency system itself, but there is also the peculiar problem of fluctuating exchange rates between silver and gold. Premiums are often paid in silver, and if they are converted into gold and forwarded to the home offices to be returned later, in silver, to meet maturing endowments and death claims, the company will lose money in the event of an increase in the value of silver or make a gain if the reverse holds true. In recent years, particularly 1926 and 1927, the price of silver in terms of gold has been steadily falling, but its phenomenal rise during and after the period of the Great War must not be forgotten. Life Insurance is essentially a long-run affair. In this connection the following fluctuations between

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[57] Asia Life also does business in Southern Asiatic Continent and its adjoining islands.

[58] A. K. Taylor, *Selling Life Insurance in China*, Eastern Underwriter, June 8, 1923.

[59] Prospectus, China United Assurance Society.

Haikwan Tael,[60] a silver standard, and United States Gold, and Sterling currencies, are worthy of note:[61]

AVERAGE EXCHANGE RATES, 1907–1925 (IN 3-YEAR PERIODS), HK.TL. IN UNITED STATES GOLD AND BRITISH STERLING

YEAR	U. S. GOLD	STERLING	
	$	s.	d.
1907	0.79	3	3
1910	0.66	2	8
1913	0.73	3	0¼
1916	0.79	3	3 13/16
1919	1.39	6	4
1922	0.83	3	9
1925	0.84	3	5⅞

From the foregoing table, it is seen that for the years chosen, the fluctuations of a Haikwan Tael in U. S. Currency ranged from $1.39 to $.66, a ratio of more than two to one. The inconveniences incumbent upon the companies concerned are obvious.

Abject Poverty

Much has been written about the "wealth" of the Chinese nation; indeed, particularly in mineral resources, it has been exaggerated to the point of fable. Tribute has also been paid by some to the "substantial, because inexhaustible, wealth that lies . . . in the industry, the intelligence, and the fine character of the Chinese people . . ."[62] The Chinese have been farmers for forty centuries, but the diversity of her climate and the

[60] The Haikwan Tael is a book currency and does not exist *de facto*, either as coin, or in the shape of ingots; it is supposed to be 1000 fine and to weigh 583.3 grains silver. The value of the Hk. Tl. vis-a-vis the Chinese silver dollar is fixed at $1.50.

[61] Figures taken from *China Year Book*, 1926, p. 537, and Arnold's *Commercial Handbook of China*, 1926, p. 27.

[62] Minister J. V. A. MacMurray, *Problems of Foreign Capital in China*, Foreign Affairs Magazine, Vol. III, No. 3.

fertility of her soil is beyond question, although there is sad evidence of the pressure of population upon subsistence. All this, however, does not mean that China possesses in plenty the material things the economist calls wealth. Underground resources prior to their realization certainly do not enter into the category of material wealth, and the praiseworthy traits of a people, if not offset by other liabilities, at best constitute social wealth. There is a limit to the returns from agriculture, and neglecting such unfortunate occurrences as famine, droughts, floods and other natural cataclysms of which there are plenty, the Chinese soil is fighting a losing battle against the principle of diminishing returns.

China has a population approximately three times that of the United States and six times that of Japan. Her estimated per capita wealth is only one-eighteenth that of the United States and one-sixth that of Japan. Although her territory is vastly greater than that of Japan and about one-one eighth that of the United States, her government expenditures in 1925 were only one-half that of the former and one-ninth that of the latter.[63] The economic plight of the Chinese people is obvious. Few statistical investigations have been made on the standard of living of the people, but of the few made, the findings were disheartening. A survey conducted a few years ago by the China International Famine Relief Committee covering 7000 families of 37,000 persons in four widely separated areas in Northern and Central China showed that the income of more than half of these families was less than G$25 per year,[64] whereas the minimum

[63] The World Economic Chart (1926) by Redmond & Co., New York City, gives the following figures for China, Japan and the United States:

COUNTRY	POPULATION (000,000)	ESTIMATED WEALTH (000,000)	PER CAPITA WEALTH	GOVERNMENT EXPENDITURES (000)
China.....	330	53,207	161.1	395,105
Japan.....	60	60,000	890.6	625,797
U. S.....	117	320,804	2919.2	3,584,988

[64] Guy W. Sarvis, *Standard of Living in China and Its Meaning*, Journal of Applied Sociology, January, 1925, pp. 187–195.

standard of living,[65] as determined by different persons working independently on the subject, was fixed at G$30.00 per year for a family of five persons. Investigations of intermediate income groups in Peking gave a slightly better showing, the range of the incomes of these families varied from G$81.00 to G$3410.00, with the majority, however, falling below an annual income of G$600.[66] A perusal of their family expenditures showed that more than 75 per cent on the average was spent on food, clothing, rent, and operating expenses, and only a meagre portion, 1.7 per cent, on health. Rise in the cost of living in Peking has seldom been exceeded, or even compensated, by proportionate increases in either the money or the real wages of labour and coolies.[67]

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[65] Professor Dittmer explains the minimum standard of living thus:
"This means that they can have enough food, though simple and poor, live in a house that will at least shelter them from the elements, have at least two suits of clothes, have enough fuel so that they do not have to go out and gather it, and have $2.50 left over for miscellaneous expenses, which will give them meat on feast days and tea quite often, almost every week, while if there is no sickness they can even make a trip to the Temple Fair back in the mountains." (*Quarterly Journal of Economics*, Vol. 33, November, 1918.)
Professor Sarvis employs the same definition of the minimum standard of living.

[66] A study was made by Ava B. Milam on sixteen Peking families the majority of which were sufficiently well-to-do to send their children to universities and colleges. The results of this study appeared in an article on "Standard of Living Among Intermediate Income Groups in China", in *Journal of Home Economics*, August 27, 1927, pp. 417–435. It would seem, however, that the number of families covered in the study was far too small, and that, therefore, the conclusions should be accepted with reserve, although, as the author states, the tendency among sociological investigations is towards case studies.

[67] Peking Wages and Cost of Living Index Numbers for more recent years are as follows:

YEAR	COST OF LIVING	MONEY WAGES		REAL WAGES	
		LABORER	COOLIE	LABORER	COOLIE
1913.....	*100*	*100*	*100*	*100*	*100*
1920.....	114	114	127	100	111
1921.....	117	106	117	91	100
1922.....	113	101	113	89	100
1923.....	118	104	112	88	95
1924.....	126	111	116.5	91	96

Figures taken from table under same heading in D. K. Lieu's *China's Industries and Commerce*, p. 110.

Although the Chinese are traditionally a peace-loving people, contented and frugal, strikes have become increasingly frequent, and in a recent study of strikes already quoted, it was found that over 47.15 per cent of the total was due to pure economic pressure,[68] and a growing portion to demands for better social and working and living conditions.

The above is sufficiently illustrative of the abject conditions of poverty in the country. Under these circumstances, the question of insurance naturally dwindles down to the ability on the part of the people to pay. Granted the existence of an intensive desire for a commodity and a knowledge of its utility, the ability to pay for it is often the deciding factor. If, then, according to one writer, "the majority of the population of China are below the poverty line if that line is placed at a per capita annual income of $15.00 per year or a family (of five) income of $75.00 or even $50.00 per year, and probably four-fifths of those above the poverty line consume each year all they produce"[69] how much is there left for purposes of savings and insurance? And the case becomes all the more serious when we notice that in most cases there are sold only the more expensive policies such as the endowments and that the premium rates charged in China are much higher than those in the United States, Japan, and European countries, where the standard of living, on the average, is immensely higher.

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[68] Ta Chen, *Analysis of Strikes in China, 1918–1926*, Chinese Economci Journal, October and December issues, 1927.

Dr. Chen defines economic pressure as (1) high cost of living, (2) wage increase, (3) increase of fees, (4) increase of taxes and (5) wages reduction.

[69] Sarvis, *Op. Cit.*, p. 192.

CHAPTER III

Family Ideas

The Chinese Family

Modern development in the concept of life insurance in the West has carried it into extensive uses for business and credit purposes; but the fundamental and primary purpose of life insurance, namely the protection of the family, remains the same. However, the Chinese family system, and for that matter, the systems now prevailing in India and Japan, differ radically from that in the West in many respects. Without going into a deep sociological study of each, one may say that the Western family is built mainly on the relationship between husband and wife,—and children prior to majority. Except in rare cases where the income is derived from funds accumulated or otherwise inherited, the family relies solely for support upon the earning capacity of the husband. Usually maintaining a home of his own, he does not need to worry about the support of his parents, nor, in turn, does he depend upon them for support unless, of course, in exceptional cases or where he is truly prodigal. He marries, not necessarily because it is his duty to perpetuate the family lineage, but presumably on the individual concept of conjugal love and companionship. At the same time, his wife, though depending upon him for support, is not thus relegated to an inferior position. She had her own choice in the marriage contract, not being influenced by her own relatives or by loquacious go-betweens. The rights of womanhood are respected, which finds expression in adequately providing for her both during her husband's life and after his economic or physical death.

Although the fundamental purposes of marriages and families are the same the world over, the Chinese family is not constituted on the basis just described. Nor is the joint stock family in India, or that in Japan. The contact of Western influence may have wrought changes in sporadic instances or in favoured localities, but one should deal with the rule rather than with the

exceptions. In China, the ruling organization is the "Big Family". Such a family may be described as a shifting organization, usually large, being composed of an aggregate of individuals of the same family name, who are united one with the other by blood or by marriage relationships, centering around some particular individual as the nucleus, and differing in status and positions with different individuals.* It is similar, in its essential respects, to the Hindu family which is "joint in food, worship, and estate, consisting of the man and woman, their sons, grandsons, and great-grandsons, who live in peace and harmony and share the common chest or purse."[1]

The large size of the Chinese family is often alluded to; but the size alone is by no means its sole criterion. Rather, for the present discussion, the ideas that are built around it are of greater significance. In fact, while it is designated as the "big family", it is not always necessarily large. Investigations by the China International Famine Relief Committee previously referred to[2] disclosed the average size of 7000 families in Northern and Central China to be 5.24. Averages used by the compilers of the 1926 China Year Book in estimating the Chinese population were 5.5 persons per family and 8.38 persons per family in Fengtien, Manchuria.[3] The study of intermediate income groups in Peking[4] revealed the average to be 6. Undoubtedly, the big family is much more prevalent among the richer people and in the Southern provinces.[5] It was found[6] for instance that in Manchuria one family contained two hundred members and cultivated several hundred acres of land, while in Fukien Province a single family, more properly a clan, contained 2000 members, owning and cultivating 1650 mou (275 acres) and another had 1400 members owning 2300 mou (383 acres).

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* Definition adapted from that given by D. K. Lieu, in *The Social Transformation of China*, reprinted in C. F. Remer's *Readings in Economics for China*, pp. 66–80.

[1] R. Mukerjee, *Foundations of Indian Economics*, p. 15.

[2] *Supra*, p. 35.

[3] *China Year Book*, 1926, p. 2.

[4] *Supra*, p. 36.

[5] E. T. Williams, *Chinese Social Institutions*, Annual Report of the American Historical Association, 1916, p. 428.

[6] *Ibid.*, p. 427.

The particular family and social ideas which, it is believed, possess an important bearing on the development of life insurance are:

(1) The emphasis on filialty, giving rise to the reliance of the old upon the young for support;

(2) the interlocking dependency of the members of the same family and their relatives and kins;

(3) the involuntary character of the marriage union;

(4) the inferior position of woman.

The Emphasis on Filialty

Loyalty to the overlord and filialty to one's parents are the watchwords of Oriental society. Loyalty thus conceived is best exemplified in Japan. In China, while loyalty comes first in order of terminology (thus, loyalty, then filialty), it was tantamount, in the time of the monarchy, to filial piety as the Emperor was then revered as the Father of the Nation. Filial piety, as commonly understood, grew out of "the love for the same kind", the love of the father for his sons. In return, one of the duties[7] of the son as defined in the *Canon of Filial Piety* is that in nourishing his parents, his endeavour is to give them the utmost pleasure. To be more specific, the filialty of the common people as seen by Confucius is thus:[8] "They followed the course of heaven in the revolving seasons, they distinguish the advantages afforded by different soils, they are careful of their conduct, and they are economical in their expenditures, *in order to support his parents:* this is the filial piety of the common people." Support of the parents, however, is brandished by Tsêng Tsu, one of the pupils of Confucius, as the lowest degree of filial piety, the two higher forms being (1) honouring one's parents and (2) not disgracing them.[9] Confucius himself recognized that mere physical support does not constitute filialty. He says: "Dogs and horses are

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[7] Dr. Charles Ling Wu in a recent article on the Social Thought of Confucius points out that the other duties of a son which constitute filialty are (1) well preservation of the body; (2) keeping near to the parents; (3) obedience to the will of parents and (4) remembering the parents after their death. (Chinese Pol. and Soc. Sc. Rw., Jan. 1928, pp. 102–103).

[8] *Sacred Books of the East*, Vol. iii, p. 480.

[9] *Li Ki*, Book XXI, pp. 226–7.

able to do something in the way of support."[10] To him, real filialty must be motivated by love and reverence. However, while all this is true, no one could be called a filial son without fulfilling the duty of supporting his parents.[11] Mencius further extended the principle by defining what constitutes *un*-filialty. To him, one is unfilial when he fails to attend to the support of parents on account of any one of five causes, one of which is fondness of commodities and money and *selfish attachment to wife and children.*[12]

The support of parents is not merely an ethical institution as propounded by these philosophers. Etymologically, the Chinese word for filialty is composed of two characters,—"old age" and "son", thereby suggesting son supporting old parents. Further than that, it is an ethnic institution. It was incorporated in the Law Code of the Tsing Dynasty in which there is a provision that those who purposely do not give sufficient support to their grandparents or parents shall be punished with one hundred blows with the long stick, upon complaint of the elders concerned, and that "any person, who, in order to hold an office under the government, absents himself from a father, mother, paternal grandfather, or grandmother, who is either upwards of eighty years of age, or totally disabled by an infirmity, and has no other male offspring above the age of 16 to perform the duties of filial piety, shall suffer a punishment of eighty blows." (*Ta Tsing Leu Lee*, Sec. 180.) Under certain conditions, one may be saved from capital punishment or from exile, for the support of his grandparents or parents (Sec. 18). The institution of the Republic has brought with it changes in these law codes, but while the old ones are no longer accepted wholesale, their spirit, it may be said, still obtains. Dr. S. G. Su, who has made an intensive study of the Chinese family system, declared that under the new criminal code, "the duty of children to support their parents is implicit and explicit; under no circumstances can they escape

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[10] Chen, *Economic Principles of Confucius*, Vol. I, p. 158.

[11] *Analects*, II, 7.

[12] The other four causes are (1) laziness; (2) gambling; chess playing, and drinking; (3) following desires of one's ears and eyes so as to bring about disgrace to one's parents; and (4) pugnaciousness.

or ignore this duty."[13] Article 340 of the Criminal Code of the Republic of China provides: "Any person who abandons any of his lineal ascendants shall be liable to penal servitude for life or for a term of from five to fifteen years."

Not only must children be reverent and obedient and support their parents while they are living but after their death they must arrange funerals befitting the social position of the family, must observe three years of mourning and ever afterwards repeatedly perform acts of worship. A son is also responsible for his deceased father's debts.[14] Although actually a son is responsible for his father's debts only up to the amount of property left him by his father, Chinese children always jealously strive to keep unsullied the memory of their parents and the good name of the family by invariably paying the debts to the last cent.

The intent of the present analysis is not to criticize in any way the doctrine of filial piety. Upon examining its constituent ideas, one falls in line with those who vehemently maintain that the longevity of the Chinese nation is due in no small measure to the existence of this laudable principle. It does seem, however, that filial piety has been associated too often with its "lowest form"—to use the terminology of Tsêng Tsu already quoted; and it is here, one feels reluctant to say, that the mischief is found. The support of elders, made into an ethical and ethnic institution can mean only one thing: the encroachment of the old, who had its day while the sun shone and the opportunity to earn and to save, upon the immature earning capacity of the younger generation. This is rightly termed retrogression. It is futile to argue, as did some writers,[15] that this is only an emergency measure and is seldom resorted to. Undoubtedly it is the good intention on the part of all concerned to be finan-

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[13] S. G. Su, *The Chinese Family System*, p. 79.

[14] *Ibid.*, p. 81.
E. T. Williams found that while the new Penal Code of China does not provide for the possession of the power of life and death by the parents over the children as did the old Manchu code, "it does so by implication, since it provides that one may, without committing an offense, use force in resisting an attack upon himself, except it be an attack by a lineal ascendant." *China, Yesterday and Today*, pp. 55, 56.

[15] See, for instance, Chen *Op. Cit.*, pp. 162–163.

cially independent at a dependent old age. The unfortunate thing is that human nature is such that few who live to an old age are financially independent. This is true in spite of the reputed frugality of the Chinese people.

Viewed from the standpoint of life insurance, the effects of the foregoing emphasis are detrimental to its development. Where one knows that his future is reasonably secure, it does not seem necessary to purchase further intangible life insurance protection. Under the circumstances, the perfectly logical thing to do would be, not to invest in stocks and bonds, or in insurance, but to give greater vent to the power of productivity, for every male child thus brought into the world would be equivalent to the purchase of another endowment policy the number of which should be steadily increasing but never diminished nor any one of them lapsed. On the other hand, the effect upon the younger generation is, to say the least, tragic. They are forced to work at an early age, and are further troubled by the paralyzing effects of fear and worries necessarily incumbent upon the momentous burden of supporting a family. As some writer has remarked, it is not uncommon to find in modern Chinese cities petty clerks earning a paltry salary but incurring the tremendous obligation of meeting not only the bills of his own wife and children but also those of his brothers, sisters, and parents. Thus, the fullness of their life value is never attained, and there is little time, less energy, and still less money, to spend on the institution of life insurance.

Interlocking Dependency

Somewhat analogous to the above is the interlocking dependency existing among the members of the same family. Fraternal reverence, denoting a close relationship between brothers, is, clearly recognized by Confucius.[16] One of his disciples, Yenl voiced his sentiment in these terms: "Filial Piety and Fraterna Reverence! Are they not the root of all benevolent actions?"[17] Joint responsibility among the members of a family for the criminal acts of one of their kind was recognized, observed Williams,[18]

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[16] Wu, *Op. Cit.*, p. 103.
[17] *Abnlects*, I., 2.
[18] Williams, *Op. Cit.*, p. 61.

in the Penal Code of the Manchus as late as 1905. In civil cases, as when a man owes a debt, it is not uncommon, even in modern times, for his relatives, let alone the members of his immediate family, to dig deep into their own pockets and contribute to a common fund for the repayment of the debt. Should any member be crippled or otherwise helpless, all the others must aid him and support him. Pride as well as duty demands this,* for it would be disgrace to let them struggle alone, and receive help from outsiders.

It is clear that in a family which operates on a joint-stock basis and in which the individual member contributes to the common chest what he earns and draws what he needs, he has little worry about the future of his wife or of his descendents. They are taken care of by his parents and when the parents die, they live on the common property of the family. In addition, there are the outside relatives to count upon. Hence, on the one hand the individual is suppressed by being pushed to the background and on the other his initiative is considerably lessened, both of which produce detrimental effects. What is worse, family solidarity encourages indolence and inefficiency. Only the more enterprising and ambitious care to undertake new enterprises. Even then they are discouraged to do so, as they are influenced by bad examples or otherwise checked by the apprehension that although their gain benefits all, their losses will affect all likewise. Not only does all of this affect insurance negatively, that is, indirectly, but, in a positive sense, it does away with the necessity of insurance as in the place of life insurance protection, the support from the entire family as well as from kinfolks is substituted.

The Involuntary Nature of the Marriage Union

Perhaps it is well known in the West that Chinese marriages are arranged, not by the parties immediately concerned, but by such outsiders of the union as the parents or other lineal ascendents. Probably this phase of parental authority has been overdrawn in Western writings. Chinese parents do give recogni-

* Criminal Code of the Republic of China, Article 339.

tion to their children's voice, and even though the affair may not be of the latter's own initiation, their consent is usually obtained. One writer has humorously remarked that a girl could very easily discourage a marriage proposal by making herself extremely disagreeable in the preliminary meeting usually arranged between her and the family of the prospective groom. Nevertheless, the requirement for parental consent is an age-long institution, having existed, as Dr. Su pointed out (*Chinese Family System*, p. 56), since the Chow Dynasty. Article 1338 of the present Provisional Civil Code says: "The consent of parents is required for every marriage," except when, stipulates the same article, in case the power is vested in step-parents or foster parents who wilfully object to the marriage in which case the pair may marry without parental consent, but with the approval of the family council. There were occasions when even the consent of the parents was not considered necessary. Thus Mencius commented favourably on one of the ancient sages, Shun, marrying without informing his parents.[19]

The union being brought about through parental authority, the married couple owes implicit subservience to the parents. According to *Li Ki* if a daughter-in-law was not in accordance with the wishes of the parents, the latter had the right to request their son to divorce his wife. If, on the other hand, the son could not live amicably with his wife, but the parents said: "She serves us well," then the son "should behave to her in all respects as his wife, without fail, even unto the end of her life."[20]

Of course, nowadays the pendulum is steadily swinging to the other direction, and it is not seldom to see sophisticated

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[19] Mencius, V, I, II, 1–3. He said: "If he had informed them, he would not have been able to marry (because Shun's blind father was consistently unprincipled and his stepmother insincere). That male and female should dwell together is the greatest of human relationships. If Shun had informed his parents he would have foregone the greatest human relationships and incurred the parental displeasure. Therefore, he did not inform them."

Mencius' position must not be interpreted as one against the requirement for parental consent. Shun's violation was regarded by him merely as a matter of "justifiable expediency", to use the words of S. G. Su, in *The Chinese Family System*, p. 25.

[20] *Li Ki*, Bk. X, Sec. 16; also see *The Li* by Elder Tai, Bk. XIII, Ch. XXVI: "The Seven Grounds for Divorce." The Civil Law, however, required an immediate divorce in case wife commits a crime like adultery.

young men and young women walking arm in arm on the broad highways of a modern city, seeking a free contract in the matrimonial market. Fortunately, or unfortunately, in most marriages, especially those in interior places, parental authority and choice is still the deciding factor. To many, marriage is a duty that must be performed by the individual for the sake of perpetuating the family lineage. Since it is a family affair, it is none of the individual's business as to how it is being arranged or, indeed, who the other party is. His or her duty is to bow to the choice of the group. That, therefore, such a union consummated into is highly involuntary is beyond doubt. Unquestionably it is true that in the long centuries in which this custom of blind marriages has been followed, the parties immediately concerned, particularly the girls whose spirit of sacrifice and forbearing speaks well of Chinese womanhood, have made the best of the situation. Even then it is not to be supposed that Chinese marriages are necessarily happier than those in the West, as so many writers have attempted to make one believe. Thus Sir Robert Hart, a keen student in Chinese affairs, was quoted[21] to have compared a Western marriage to putting a kettle of boiling water over a fireless stove and permitting it to cool off, and a Chinese marriage to placing a can of icy cold water on a glowing fire and allowing it to take up heat. The comparison is interesting if true. The irony of the situation is that too often there is little or no fire under the can of cold water so that it never gets more than lukewarm!

It is also true that divorces and remarriages are extremely rare compared to the situation in America or Russia. This, however, should not be attributed to greater marital love. Divorce, as explained by Professor Lichtenberger of the University of Pennsylvania,[22] is only the result of the break-up of the family and not its cause. It is the legal procedure through which the legal bonds are dissolved. There may be separations, estrangements, and complete cessation of marital love, prior to obtaining a divorce. Surely the threat to "go back to mother"

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[21] M. T. Z. Tyau, *China Awakened*, p. 68.
[22] J. P. Lichtenberger, *Divorce and Its Social Causation*, p. 143.

is as forceful in Chinese households as elsewhere, and quite often it is relentlessly carried out. The truth of these statements may be attested by the fact that when the provisional divorce laws were promulgated during the last days of the Manchu dynasty and later decreed to be continued in force at the establishment of the Republic,[23] applications for divorce among the poorer classes immediately increased day by day. And as far as remarriages are concerned, they are few because in the first place, divorces are few, and secondly, because they are looked upon with social disfavour.

Under such circumstances, one may seriously question how life insurance can possibly grow. If the bond between husband and wife is involuntary, the husband can see little or no reason why he should purchase life insurance for *her* protection. Besides, isn't there the assurance that his family will take care of her anyway? Indeed, for him to break the ice of coldness that is supposed to separate him and his wife and resort to the beneficent protection of insurance would be tantamount to "being fond of commodities and money, and selfishly attached to wife and children",—to use Mencius' phraseology already quoted. This in itself is an act of *un*-filialty. The Chinese husband knows better.

The Inferior Position of Woman

Oriental society has always placed woman in an inferior position. This applies without exception to China, Japan, and India. The Chinese woman has three male generations to follow: he, father before her marriage, her husband after she is marriedr and her own son after her husband is dead. It is true that Confucius' writings seem to indicate that he placed woman as equal to man.[24] Thus, the *Canon of Poetry* says, "Love your bride as your brother,"[25] and Confucius prescribed elaborate rites of "personal receiving" in which the groom must go to the bride's home to receive her personally.[26] Confucius also recog-

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[23] Tyau, *Op. Cit.*, p. 79.
[24] See Chen, *Op. Cit.*, Vol. I, p. 64, *et. seq*; and Charles Ling Wu, *Op. Cit.*, pp. 108–110.
[25] *Classics*, Vol. IV, pt. I, p. 54.
[26] Chen, *Loc. Cit.*

nized the political rights of woman to hold office,[27] and her ultimate independence in the stage of Great Similarity.[28] However, in spite of all these assertions, it may be said that the complete lack of the right to divorce on the part of woman even according to Confucian writings, the practice of polygamy and concubinage,[29] and the customary aversion to the birth of female infants, are sufficient illustrations of the inferior position of woman. In the extreme words said in the Resolution of the Women's Patriotic Association of Tientsin, "Ninety-nine out of every hundred women in China are not free."[30]

Western woman, in her mad scramble for rights, has comfortably elevated her position but never yet has she attained complete equality. Even then, it would be perfectly within her rights to ask for insurance protection, for society never questions that she has the right to live as comfortably when her husband is dead as when he is alive. On the contrary, a Chinese widow is just a "pitiable being awaiting death", to use the Chinese phraseology. Suicide on her part, rather than a comfortable living, would be the more logical and praiseworthy alternative. How could she think of asking her husband to purchase insurance for her own benefit when he passes away? The finger of scorn would be pointed at her. On the other hand, neither does the husband see the necessity of purchasing insurance when his wife is just a subordinate. Indeed, his wife's asking would just give him so much caution against her, for does not the proverb say:

> "The poisonous bite of the serpent,
> Or the prick of the bee,
> Neither of these is comparable
> To the guile of a treacherous 'she'."?

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[27] *Ibid.*, p. 69.
[28] *Ibid.*, pp. 70–71.
[29] Confucius' father had more than one wife. He himself, however, had only one. Mindful of the evils of this custom, he said in the *Canon of Change:* "When two women live together, their minds do not move in the same direction." Later, he also said, "When two women live together their minds do not agree with each other." Nevertheless, he tacitly approved of the institution of polygamy.
[30] M. T. Z. Tyau, *Op. Cit.*, pp. 61–62.

Other Family Ideas

The foregoing are perhaps the outstanding factors hindering the growth of life insurance. There are others which we need to review but briefly. The suppression of the individual deserves chief consideration. Since he is part and parcel of the family, his initiative is cut short, and his spirit of the frontier is effectively curbed. Ancestor worship and the necessity of perpetuating the family give rise to indiscriminate multiplication of the population and also to early marriages* with their resultant adverse effects. Not only are the parents taxed to the limit in the support of their descendents, thus making it impossible to adequately provide for the future, but seldom are the latter brought up in decency or permitted to acquire the fullness of their economic values. Finally the spirit of clannishness unconsciously engendered in the family system must be deplored. Insurance is necessarily a scheme that involves large numbers, and that is nation-wide, if indeed, not world-wide, in application. It can hardly develop when the interests of the people are confined within the bounds of the communal, clan, or family.

The Possibilities for Insurance

Perhaps we have overdrawn, in the foregoing paragraphs, the difficulties confronting the development of life insurance. Upon a little reflection, it will be seen that the situation is not so hopeless after all. Certainly there is enough room left for its development. The Chinese family is just one form of a mutual-aid structure resting on the pillars of filial piety and fraternal reverence. As such it is also a form of insurance to the extent that the future of the parents and that of the sons and their wives and children are provided for. Only, unlike insurance, it is a family scheme, and lacks such scientific elements, as the making of reserves, the indemnification of losses, the equitable distribution of costs, or the making of rates based on mortality experiences.

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* Article 1332 of the present Provisional Civil Code prohibits marriage of a male before 18 and of a female before 16. Su observes that "the attainment of puberty as a legally prerequisite of marriage was not known in China before the enactment of the Provisional Civil Code. (*The Chinese Family System*, p. 59.)

Strictly speaking, one would not, of course, call this family system a form of self insurance. Life insurance protection from an external source may still be applied with advantage. The fact that there is a head or nucleus in the family shows clearly the necessity of having this head insured. An enterprising salesman could very easily demonstrate this necessity and the amount thus written should be very substantial. Perhaps the chief difficulty is that such an individual is usually advanced in age when he attains the position of the head of a big family. Aside from age limits set by the companies beyond which they do not accept insurance, the premiums would naturally be high if not prohibitive. The requirement for elaborate burial services should give occasion for burial insurance. The emphasis on filial piety should encourage the younger generation to take out policies in favour of those whom they support. Term policies, because of their cheapness, and policies with reversionary benefits ought to appeal to these higher sentiments. Finally, precluding the possibility of an unfortunate grouping of adverse family characteristics, group policies could be sold to large Chinese families with the interdependent members as beneficiaries. Unfortunately, none of these forms of insurance is sold in China at present, the emphasis, as shown later, being placed on endowments.

One solution of the problem, then, is by adapting the principles of life insurance, with its varied kinds of policies, to prevailing conditions. Ultimate salvation, however, lies not in mere adaptation, but rather in changing these conditions themselves. And, indeed, the tendency seems to be in this direction. There is little doubt that the family system is being gradually, slowly, but surely, torn down. Just one illustration, perhaps a far-fetched one, will suffice. In the last half a century or more, there has been a growing frequency in the enactment of discriminatory legislation against Chinese in various places in the world,[31] which is probably a convincing proof, though a painful one, of the force of Chinese emigration. Chinese emigration, in turn, can mean only the break-up of the big family and the accom-

[31] See H. F. MacNair, *Chinese Abroad*, p. 313.

panying loss of certain family ideals. For instance, the old requirement that the filial son must remain at home as much as possible[32] cannot and does not possess much weight in the face of emigrations both within the nation and without. Contact with Western ideals has gradually wrought changes in marriage customs and vastly improved the position of woman. In this slow process of transformation which has been fermenting within the nation for the last few decades[33] will China find an ultimate solution of her many problems. And the insurance man may well join forces with such social workers if he intends to obtain his rightful place in old Cathay.

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[32] Charles Ling Wu, *Op. Cit.*, p. 103.
[33] See M. T. Z. Tyau, *China Awakened*, Ch. VI. on Social Transformation in China.

CHAPTER IV

The Emphasis on Endowments; Premium Rates

As already referred to in many places, the most prevalent kind of policies sold in China is the Endowment. All the Chinese companies that have come under the writer's observation confine themselves to this type of policies, which means that in all cases the "investment" element of insurance is stressed. In fact, in the prospectus of one company, there is, under the heading of "insurance", a so-called "investment bond" or "child endowment" which provides for (1) the payment of a certain premium a year by the policyholder; (2) the return of all these premiums paid with accumulated interests at 3½ per cent in case of the death of the policy-holder, or of the child, within the designated period; and (3) the payment by the company of the designated amount of the policy at maturity. It does not call for a medical examination; and judging from the above provisions, also from the fact that the premiums charged are uniform for all ages, it is not in the nature of a pure endowment. Clearly, here insurance is relegated to a savings and investment proposition, pure and simple.

Most of the foreign, particularly Canadian, companies also confine their business on Chinese lives to the Endowment Plan. As stated, a few of the American companies have gone into other plans of insurance, as the limited payment life and whole life policies, participating as well as non-participating. The returns, however, to a questionnaire sent out by the writer show that as a whole only a small amount of non-Endowment insurance has been written on Chinese lives, the total volume of such insurance as determined by the figures returned being approximately G$5,651,058.00 in 1926.

It may be said as a general proposition that the policy of most, if not all, of the companies transacting a world-wide insurance business—including some of the American companies which

recently withdrew from foreign fields—is to give particular stress on Endowment policies with reference to foreign business and especially in regions where the tropical or semi-tropical tables are used. The advisability of such a measure has been repeatedly debated upon by various actuaries.[1] In one of these discussions, it was brought out by one actuary that "it is the custom of most of the companies to issue to native applicants (in foreign lands) policies on the Endowment plan only."[2] The force of such a policy may be seen in the following table showing the relative distribution, in amount and number of policies, between Endowments and other plans of insurance in the Out-of-Canada business of two of the strongest Canadian companies that write insurance throughout the world.[3]

DISTRIBUTION OF BUSINESS IN ENDOWMENTS AND OTHER PLANS OF INSURANCE OF TWO CANADIAN COMPANIES

DECEMBER 31, 1925

	AMOUNT	PER CENT OF TOTAL	POLICIES	PER CENT OF TOTAL
Endowments	$365,922,215	50.7	181,171	64.6
Others	356,341,189	49.3	99,489	35.4
Total	722,263,404	100.00	280 660	100.0

It is seen from the foregoing that in both amount and number of policies, endowments occupy over half of the volume and exceed other plans of insurance. This is even more clearly marked if we note that Out-of-Canada business here includes business written in the various states, about fourteen, of the United States Union in which these two companies operate. In this connection, the following table is significant:[4]

[1] See, for instance, discussions on Arthur Hunter's paper on *Mortality in Tropical and Semi-Tropical Countries*, T. A. S. A., Vol. X, p. 688 *et. seq.*

[2] Macaulay, in discussions cited above, p. 694.

[3] Figures from *Report of the Superintendent of Insurance of Dominion of Canada*, 1926, pp. 242, 522.

[4] Figures from *New York Insurance Report, Life*, 1927, p. ix.

DISTRIBUTION IN ENDOWMENTS AND OTHER PLANS OF INSURANCE—BUSINESS OF CO'S REPORTING TO THE NEW YORK INSURANCE DEPARTMENT, 1926

	AMOUNT	PER CENT OF TOTAL	POLICIES	PER CENT OF TOTAL
Endowments	$8,262,623,746	17.1	5,109,166	25.7
Others	39,981,457,091	82.9	14,771,182	74.3
Total	$48,244,080,837	100.0	19,880,348	100.0

Thus, accepting these figures as fairly representative of U. S. conditions as a whole, it may be said that in a country where life insurance has attained its greatest growth, its "protection" feature rather than the "investment" element has been emphasized.

Reasons for the Predominance of Endowments

The reasons why only endowment insurance is bought by the people and sold by the companies may be briefly described as the following:

A. From the Purchaser's Point of View:

(1) Insurance is wrongly conceived of by the public merely as a means for the accumulation of savings. Its protection feature is neglected, emphasis being placed on the investment element. Besides, an endowment policy contains a double inducement since the company contracts to pay the face amount of the policy (1) if the policy-holder *dies* within the period or (2) if he *survives*. Reference to the "Investment Bond" above shows how insurance is being conceived of even by the companies themselves.

(2) There is also a certain amount of superstition. If the plan of insurance is such that its proceeds cannot be realized unless one dies, then it is certainly "bad joss" to insure. On the other hand, in an endowment one would be looking forward to the pleasure of living and enjoying the proceeds some day. In this connection, Mr. Macaulay's words are interesting:[5]

[5] T. B. Macaulay, *Loc. Cit.*, pp. 693–694.

"A Chinese profoundly objects to having the question of death discussed at all, and in particular the question of his own death. If an agent were to approach a well-to-do Chinese, and speak of the possibility of his dying, that Chinese, would, I understand, consider that he had been grossly insulted. According to their idea of courtesy and politeness death is one of the subjects which must be absolutely avoided. If an agent were to say to a Chinese, 'I would like to issue to you a policy which would protect your wife and children in the event of your death,' he would, I am told, almost certainly fail to secure the business. To succeed, he must present the investment feature, and all that he dare say about death is to remark incidentally in an off-hand manner—'Of course, if you happen to die before the expiration of the period, your family will be paid the amount of your policy'—this is the most superficial way in order not to give offence."

In all fairness, it must be said that while the above quotation is substantially correct, the picture is perhaps overdrawn. Superstition is still an important consideration but unquestionably much of it has been done away.

(3) The most important reason is, of course, that the endowment is the only plan of insurance offered which the prospective purchaser can have. In other words, there is no other way out. This, to quote from Mr. Macaulay again,[6] explains why endowments are prevalent in Japan and India where his earlier explanation for China does not hold. Besides, it does seem that in the general ignorance of the protection benefits of insurance anybody making an application for, let us say, a whole life policy would be looked upon with suspicion.[7]

B. From the Company's Standpoint:

(1) The mortality experience on Endowment policies is more favourable than on life policies. Thus, it has been roughly estimated that for the whole experience in North America, the death rate for life is 217 per cent of that for endowments in numbers and 228 per cent in amounts.[8] The following reasons are perhaps explanatory:

a. There is a conscious selection on the part of the prospective

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[6] *Ibid.*

[7] Hunter, *Op. Cit.*, p. 697.

[8] Asa S. Wing, *Why is the Mortality Experience on Endowment Policies More Favourable Than On Life Policies?*, T. A. S. A., Vol. IV, p. 147, *et. seq.*

purchasers.[9] Those who are in healthy conditions will prefer to buy endowments in order to enjoy the proceeds ultimately, while those who are in relatively poor health will not care to pay for the extra "investment" element.

b. Holders of endowments are forced to withdraw at maturity whether the risks are impaired or not.

c. Life policies are withdrawn in larger proportion than endowments by selection on the part of the policy-holders, the impaired lives remaining, thus reducing the average condition as to health of the life policy-holders, especially in the older age.[10]

(2) Since endowments are usually more expensive, they are bought by the richer, presumably better, classes of people who have better modes of living and an easier access to good medical facilities. Besides, the problem of lapsation due to inability to pay may be thus eliminated. This possibility is further lessened because of the larger cash value accumulated.[11]

(3) The danger of moral hazard is prevented to a certain extent, since the "investment" element is stressed.

(4) Advantage is taken of the relatively lower mortality in the earlier ages than in the older ages. Although there is yet no exact knowledge of Chinese mortality, it is believed that the death rate rises rapidly after age 50. The company can benefit more from writing endowment insurance with its heavy premiums than from writing ordinary whole life policies. High mortality rate in the older ages is avoided by age limits beyond which endowments will not be sold.

(5) Ignorance of the mortality rate in China is mainly responsible for this one-sided growth. Under such circumstances, not only is it a wise policy to sell policies requiring larger premiums like endowments and to stress insurance as an investment, but also it is materially impossible to extend the business to other plans.

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[9] See *Discussions* following Wing's presentation cited above.

[10] *Ibid.*

[11] It may conceivably be argued that a larger policy value offers added inducement for surrender of the policy.

Undesirable Results of Such Emphasis

In spite of the foregoing analysis, it appears to the present writer that the emphasis on endowments, hence on the investment element of insurance, is unfortunate and constitutes an important reason why life insurance has not progressed very far in China. The following considerations deserve attention:

(1) Emphasis on the investment element is akin to placing the cart before the horse. It presupposes the important fact that the people have been sufficiently educated to the function of protection performed by all lines of insurance. This presupposition is not true so far as China is concerned. The emphasis, therefore, is placed on the wrong place. The protection element should be stressed, especially in view of the concerted opinion among the insurance fraternity in the Orient that the death rates are high.

(2) The Endowment premium, being essentially a price asked for insurance against (1) the contingency of the insured's dying within a certain period and (2) that of his surviving the period, is necessarily higher than where only one such contingency is involved. By emphasizing both, life insurance is made into an expensive proposition, a "luxury" as it has been adequately called. It is then accessible only to the rich. The teeming millions of common people who otherwise could obtain lower-priced insurance policies, are unfortunately left out. Besides, rich people may or may not exhibit better mortality rates. This question is, at best, controversial. Some companies appear to be peculiarly satisfied that they write business in China only on the so-called mandarins and others higher up in the social ladder. One may counter, with equal force, that this represents an erroneous selection. Giving due allowance to the better standards of living, etc., enjoyed by the richer people, we must weigh carefully between two classes of people: on the one hand, there is the unworthy rich who suffers from being rich, is given over to debauchery, vice, concubinage, and intemperance, and at best, burdened by the strain and responsibilities of high official and social life; and on the other, there is the class of hard-working folks who go to work with the sunrise, whose vitality is hardened by the natural process of selection, who grow on a simple

but wholesome diet, and, above all, live a temperate life. The selection between these two needs no discussion.

(3) Restriction to only one plan of insurance means the growth of a lop-sided sales force. It is manifestly an easy proposition to learn about one particular form of insurance, so that few companies take great pains in giving their agents adequate training.

(4) Emphasis on the investment element defeats its own purpose; that is to say, insurance, as an investment in China, is never comparable to other forms of investments. Assuming the safety of principal in each case to be unquestioned, let us note the disparity between the returns from insurance and from other investments:

Insurance being necessarily a long-run affair, conservative interest rates have to be used in calculating reserves by the various companies in spite of higher rates generally obtainable on the market. The rates used range from 3½ per cent to 5 per cent, higher rates being allowed on non-participating policies as may be expected. Returns on the investment element in the endowment policies of the various companies concerned may well be expected to exceed five per cent. Calculations by the present writer on all of the endowment plans issued by one progressive company doing both endowment and ordinary businesses show that in each case the return on the investment element is well over six per cent. A complete record of the dividends (profits) given to participating policies cannot be had, but that these dividends are generous is beyond doubt, and according to one of my informants, a few of the companies have so exaggerated their estimated schedules of profits, in competition with others, that their failure to live up to them has caused much disappointment to policy-holders and wrought considerable damage to the popularity of life insurance.

At the same time, the companies themselves have earned substantially from investments. In this respect, foreign companies, especially those having a world-wide experience, far outdo their Chinese rivals. In the absence of deposit requirements by the Chinese Government, these companies are able to make best use of the principle of diversification, and by

judiciously picking choice securities from the Chinese market and mixing them with "gilt-edged" securities elsewhere, they are reasonably sure of an income comfortably above the proverbial five per cent at home. Other companies have also taken advantage of the liberal returns now being reaped by capital in the country. The experience of one Chinese company shows that during a period of fourteen years, it has received an average of nine per cent on invested assets and has not been forced to write off any loss of invested capital.[12] The absence of stringent government regulations gives the companies, as already pointed out, considerable leeway in the matter of investments, and while this constitutes a blessing, it is nevertheless not without defects. Too often companies are faced with and do occasionally fall into tempting propositions that are at best speculative, and none too good as investments. Some of these companies have not yet attained sufficient proportions to make best use of the law of average, and one may well imagine the occasion for alarm, rightly or wrongly, on the part of discerning policy-holders when these companies decide, let us say, to "put all the eggs in one basket", and go into extensive real estate holdings. While one does not have to concur wholly with some writers that investment should always be interpreted as a loan,[13] it does seem true that conservatism in the matter of investment is an essential, and where, indeed, the money to be invested belongs to somebody else as in the case of insurance reserves, a whole lot of conservatism would not be out of place.

But to return from this little digression, it may be said that while the companies have earned substantially from their investments, it being also their custom to charge interest rates on policy loans ranging from six to eight per cent prepaid, insurance as an investment nets to the policy-holder an average of at most five to six per cent. However, money invested or even deposited elsewhere brings in returns much above this average. Interest on checking accounts in Shanghai ranges from four to six per cent. Fixed deposits and savings accounts in banks located at Shanghai

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[12] Hughes, *Life Insurance in China*, p. 9.
[13] Chamberlain and Edwards, *Bond Investments*, p. 14.

where money is plenty usually receive interest rates from seven to eight per cent.[14] Banks in Tientsin and other Northern ports are reputed to give even higher rates. "It is quite the custom," says Dr. Y. C. Ma,[15] a noted banker and economist, "for banks in Peking to grant rates on fixed deposits ranging from 10 to 15 per cent per annum." The growth of industries and commerce will continue to augment the need for funds at a high rate of interest, although the opinion seems to be general that with the present unsettled conditions few securities are really "gilt-edged". Interest rates allowed on domestic government bonds having long terms to run range from six to eight per cent. A recent issue of government bonds by the new Nationalist Government in Nanking contains interest provisions as follows:[16]

(1) Interest rate on said Bonds to be 8 per cent per annum, payable monthly;

(2) Bonds to be issued at 98 per cent of par value; i. e., a $100 bond can be purchased at $98.

(3) Upon issuance of said bonds, interest for three months to be paid in advance.

The above represents perhaps but a conservative estimate of interest rates in China. It is generally recognized that few banks

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[14] The following advertisement of interest rates given by a bank in Shanghai appeared in the *Shun Pao*, a Chinese newspaper, Feb. 27, 1928, p. 8:

Interest Rates on Fixed Deposits

Three months	7% per annum
Six months	8% per annum
1 year	9% per annum
2 years	10% per annum
3 years	11% per annum
4 years	12% per annum

Your principal doubles itself in five and a half years.

[15] Y. C. Ma, in *The Commercial Magazine World*, Feb., 1927, p. 2.

[16] See *China Weekly Review*, January 21, 1928, p. 198. Loan made public on January 11, 1928, being an issue of bonds to the value of $40,000,000 secured chiefly by the 2½ Customs Surtax.

Other provisions include:

"From the first month of the 17th year to the 12th month of the 18th year of the Republic of China, interest on said bonds to be paid regularly once every month;

"from the first month of the 19th year, one-fortieth of the principal and the regular interest shall be paid every month;

"at this rate both the principal and interest shall be totally reimbursed by the end of the 4th month of the 24th year."

in highly commercialized districts will grant loans with substantial securities at rates less than 10 to 12 per cent. Pawnshops and native "cash houses" in interior places are known to charge rates that are exorbitant. Investigations by the Famine Relief Committee previously referred to disclosed the following rates prevalent in North China:[17]

RATE OF INTEREST IN RURAL CHINA

DISTRICT	MONTHLY INTEREST RATES		
	HIGH	LOW	AVERAGE
I	5–6%	1%	2–3%
II	2%	1%	1.6–1.7%
III	5%	1.5%	3%
IV	3%	1%	3%

Conditions like these clearly demonstrate the disadvantageous position insurance occupies as a competitor in the investment field. The practice, therefore, of stressing the investment element of insurance that has been traditionally followed by both the Chinese and foreign companies is a grave error and is responsible in large measure for the slow growth of the business. In short, as one correspondent says, it relegates insurance to the position of a "second-class" business.[18]

Premium Rates

Rate-making is a problem that has always baffled the insurance carrier. In America, life insurance is about the only form of insurance that has attained any degree of statistical accuracy, with rates based on computations from a mortality table constructed from an exhaustive survey of mortality statistics. In all other forms of insurance, the element of human judgment is still the predominant factor, this being particularly true in those

[17] Sarvis, *Op. Cit.*, p. 190.
[18] Appendix II, Letter 2, p. (113).

cases, as aircraft insurance, where only a beginning has been made. Conditions for rate-making in life insurance in China are not much different from those in the latter category.

In studying Chinese premium rates, it would do well for the critical observer to be lenient in his criticisms, or at least to bear in mind the manifold difficulties that the unfortunate actuary must face. For instance, the lack of a standard Chinese experience table as has repeatedly been mentioned and the absence of reliable mortality statistics place the actuary at a loss as to where to begin in his premium computations. Then there are such other niceties to balance: the prevalent belief of the high rates of mortality among Chinese and other non-Caucasian races, the lack of modern medical facilities, and the necessity for conservatism in rate calculations for a business just making its start, would tend to pave way for high rates; whereas the force of competition—particularly with strong foreign companies with their enormous aggregations of assets—and the consideration for the ability and willingness on the part of prospective policyholders to pay coupled with an added desire to cater to their good-will, would tend to set rates at a minimum.

It is certain that even against great odds the job of fixing rates in China, no matter to what company they belong, has been well done. The purpose, therefore, of the following paragraphs is not to point out the defects of current rates and rate structure in the country, for such cannot be found in the absence of definite knowledge about Chinese mortality and other requisite conditions. Rather, some of the existing conditions will be pointed out with a view to bringing about their ultimate improvement.

Uncertainty and Confusion

After all that has been said about the absence of a standard life table, it ought to be sufficiently clear that a great deal of uncertainty and confusion prevails in rate making. Such uncertainty has been responsible, on the one hand, for the cropping out of many companies that charge grossly unscientific rates resulting ultimately in their own foreclosure or suspension, and on the other, for the hesitancy and the unwillingness on the part of the enterprising public to go into the business. An

example of such uncertainty may be seen in an incident related where an insurance rater, on being requested to fix rates for a certain new company, arranged together all the rates offered by different companies in the market and proceeded to pick out in each case the medium which was then used for the company in question. While this device eliminates to a certain extent the force of competition, as he argued, it certainly shows a woeful lack of statistical backing.

Inadequacy of Tables Used

Reference was made previously[19] to the various kinds of tables used. A comparison of the q_x, i. e., the probability of death within a given year, as exhibited by the various tables used at selected ages is shown in Appendix I. It remains now for us to determine the adequacy of such tables used.

In the selection of a mortality table, the companies may be divided into (1) those that use tables with comparatively low mortality rates as the American Experience Table and the British Offices OM(5) Table, with advance in age or extra mortality loadings ranging from 125 per cent to 200 per cent, and (2) those that use specially constructed tables based mainly on American Tropical Experiences, as the Tropical Table by Mr. C. N. Jones,[20] formerly of the New York Life, the Tropical and Semi-Tropical Tables by Mr. Arthur Hunter,[21] and a special Sub-Tropical Table derived from regraduation of the mean of Jones' Tropical and the British Offices OM(5) Table. Not infrequently, companies belonging to the latter division charge extra flat premiums on Chinese lives, as seen by the fact that one company which does business both in China and Japan and employs the Semi-Tropical scale for both countries (that is, North China, approx. north of 30 degrees Latitude, and Japan), makes flat extra charges in North China of 50 cents on 15-Year Endowments and $1.00 on 20-Year Endowments. Separate

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[19] *Supra*, pp. 16, 17.

[20] C. N. Jones, *A Life Table Based Upon Insurance in American Tropics*, Vol. III, T. A. S. A., April 26 and 27, 1894, pp. 299–334.

[21] Arthur Hunter, *Mortality in Tropical and Semi-Tropical Countries*, T. A. S. A., Vol. X, pp. 395–452.

tables are sometimes used for white lives in China. As already stated, one company uses, for white lives, a special mortality table constructed from the mean of "Home" or Northern rates and Semi-Tropical Scales.

It is clear that in all cases tables of totally foreign mortality data are arbitrarily superimposed on Chinese lives. The adequacy of such tables for the intended purposes may, therefore, be well questioned. The disparity between the probabilities of death exhibited by the various tables may be seen from a reference to Appendix I. To take an extreme case: at age 55 the q_x in Hunter's Semi-Tropical Table is .02477 while that in OM(5) Table extended ten years is .04221, which is fully 170 per cent of the former. The difference mounts to 178 per cent at age 60.

The practice of age extension or of extra mortality loadings is essentially similar to the treatment of substandard lives,[22] a classification which is by no means so pleasant to note. Besides, assuming that the tables extended are adequate for Chinese lives, there are certain outstanding disadvantages, although the chief advantage seems to be its apparent simplicity and ease in calculation. The disadvantages are:[23] (1) that if it adequately provides for the extra mortality in the early policy years, it will provide for a much heavier mortality than it is reasonable to expect in the later policy years;[24] and (2) that rating up short-term endowments does not materially affect the premium, hence it would not provide for much of an increase in the rate of mortality unless the rated-up age be fixed unreasonably high. However, in all fairness, it must be said that the prevalent belief seems to be that the mortality rate among Chinese is reasonably satisfactory in the early ages and high at the older ages. Even then it is certainly deplorable that the cost of insurance is made almost prohibitive at ages when the ability to pay, especially for endowments, reaches a higher level.

The use of Tropical and Semi-Tropical tables for Chinese

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[22] Arthur Hunter, *Practical Treatment of Under-Average Lives*, T. A. S. A., Vol. XVI, pp. 75–78.

[23] C. K. Knight, *Advanced Life Insurance*, p. 238.

[24] Thus, extending the American Experience Table 10 years would mean that theoretically no one would be living at only age 86.

and Japanese lives may also be questioned. In the first place, except for a small section in the South, China is not a tropical country in any sense of the word. The greater part of the area of China proper is included within the northern and southern limits fixed by the forty-fourth parallel in the north and twenty-fourth in the south. This gives a climatic variation ranging from that of southern Canada to that of Mexico. The explanation for her classification in the group of Tropical and Semi-Tropical nations seems to involve reasoning in a vicious circle, since it is because that these rates are charged there, and not because of actual geographical distribution.[25] The explanation is identical to charging Northern or "Domestic" rates for the northern part of Australia although it falls geographically in the Tropics.[26]

Secondly, these tables are constructed on different mortality data. Jones' Table, computed in 1894, was taken from experiences[27] in Mexico, Brazil, South America,—north of 26 degrees except Brazil, Cuba, and Central America and West Indies except Cuba, the business "belonging largely to the Latin race, mostly of Spanish or Portuguese descent." Hunter's Tropical Table was computed from more extensive data, a portion being drawn from the Asiatic tropics as India, East India Islands and the Philippines.[28] His semi-tropical table was not graduated directly from semi-tropical mortality data, being derived from re-graduating, by the Makeham formula, the means of his tropical rates of mortality and the American rates of mortality.[29] It may be said for certain then that in each case none of these tables was constructed with reference to Chinese lives only.

With all these difficulties, apparently the only way out seems to be the construction of a Chinese table of mortality. Experiences for such purposes should not be lacking after these many years of business in the country already. For an undertaking like this, a spirit of co-operation especially in supplying adequate

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[25] Hunter, *Op. Cit.*, p. 407.
[26] *Ibid.*
[27] Jones, *Op. Cit.*, p. 313.
[28] Hunter, *Op. Cit.*, p. 406.
[29] *Ibid.*, p. 419.

mortality data should be shown by all the companies concerned. In the interest of scientific research this cannot but be strongly urged upon.

Non-Uniformity of Rates

Lack of uniformity in rates and, incidentally, in policy provisions seems to be another of the many heritages China receives from the west. To those conversant with general principles, dissimilarity in rates is known to be due to many factors such as differences in dividend schedules, or, what is of more importance, differences in policy provisions. To the uninformed, however, it represents a curious, indeed, suspicious, state of affairs. It encourages haggling with insurance agents which quite often brings about the practices of rebating with consequent damages to the morale of the sales force. In addition, non-uniformity of rates in China is shown in the different scales of premiums charged for different divisions of the country as the North and the South and also in the existence of unequal rates between Chinese and white lives. More of the latter will be said later.[30]

High Premium Rates

A comparison of the q_x exhibited by the various tables used in China shows that except for the earlier ages (younger than 23) in the case of the British Offices OM(5) Table extended ten years, in all other cases the probabilities of death are higher than those in the American Experience Table. In the case of the OM(5) Table extended 10 years, the difference mounts perceptibly and at age 50, its q_x is more than double that in the American Experience Table. Hunter's Semi-Tropical Table gives a q_x that is relatively lower than the OM(5) Table with ten years extension, although it is higher than that for American mortality in all ages. Suffice it to state that, in general, rates or premiums charged should be sufficient to cover the mortality at double the American q_x in the Tropics and at one and half times the American q_x in the Semi-Tropics.[31] In fact, the policy of the New

[30] *Infra*, pp. 93–96.
[31] Hunter, *Op. Cit.*

York Insurance Department once was to require companies doing business in regions where Tropical and Semi-Tropical rates were quoted to give valuation of such businesses on the so-called "Double American" and "Sesqui-American" bases. Apparently, then, for our present discussion, if the q_x is high, the net premium rates are correspondingly high.

Fortunately, comparing the gross rates charged by companies in the United States and China does not show a very great disparity as brought out above. Still the rates charged are, of course, in all cases higher. The following compares the gross rates in U. S., charged by one company[32] which does business also in China, with those charged by its rival companies in China, on the different plans of endowments, participating:

PER CENT OF U. S. GROSS RATES

ENDOWMENTS	HIGHEST	LOWEST	AVERAGE
10 year	116	102	109
15 year	124	106	115
20 year	130	111	120.5

A comparison of non-participating policies on plans other than endowments is shown in the following tables:

WHOLE LIFE, NON-PARTICIPATING, PER $1000 OF INSURANCE

(1) AGE	(2) CO. IN U. S.*	(3) CO. IN CHINA†	(4) (3) ÷ (2)
25	$15.48	$24.10	155
35	20.55	31.65	154
45	30.10	49.60	165
50	37.69	65.05	173

* Company uses Amer. Exp. Table at 3½ per cent.
† Company uses Amer. Exp. Table with additional mortality loadings, at 4 per cent.

[32] This company employs the British OM Table with interest at 3 per cent. Figures for computation taken from 1926 Flitcraft's Compend.

20 PAYMENT LIFE, NON-PARTICIPATING, PER $1000 OF INSURANCE

(1)	(2)	(3)	(3) ÷ (2)
25	$23.68	$33.90	143
35	28.89	42.50	147
45	37.28	55.75	149
50	43.65	68.10	156

That the rates are high relative to conditions in the United States may be readily seen from the foregoing. This does not mean, however, that they are necessarily excessive which can never be satisfactorily determined in the absence of adequate mortality data. It does seem conceivable that in their anxiety for safety coupled with the absence of any severe competition the companies do tend to set rates at a maximum, but this should be said with reserve.

Even then the highness of the premiums charged must be interpreted in all its seriousness. Combined on the one hand with the practice of restricting the business to the high-priced endowment, and on the other with the generally low standard of living among the people, it forms an effective barrier against the growth of life insurance.

CHAPTER V

Policy Provisions, Production Methods and Other Problems

Policy Provisions

As insurance is primarily an imported product, policy provisions in the life contracts sold in China are essentially similar to those found in Western nations, being, in fact, taken bodily therefrom. Practically all the important provisions are found in the Chinese life contract. Nearly all[1] the policies contain provisions for loan values, and options in case of default in premium payments. Incontestability begins in some companies with the commencement of the policy and in others from one to two years after it has been in force. Permanent disability benefits are given by one and sold separately by another. Some policies contain no provisions against military operations and services, though in one the liability of the company is limited to 70 per cent of the sum assured, and in another to the premiums paid and in still another to the reserve values calculated according to a given mortality table at 3½ per cent interest per annum. Provisions for optional modes of settlement are found in practically all the policies.

Non-Uniformity of Provisions

While the above is intended to give a general idea of the different provisions, it cannot but be seen that the policies differ vastly from each other: in other words, there is lack of uniformity. This is natural inasmuch as there is no central government regulation and the alien companies operate under the supervision of their several governments. Rightly or wrongly, China seems to follow the footsteps of Western nations in permitting life contracts with varying provisions to exist, but for the present she differs from these nations in that there is no stringent super-

[1] It is to be regretted that some companies *do* fail to give tables of cash values in their policy contracts.

vision to set a minimum standard for such privileges and obligations. To be sure, these policies are by no means "models of ambiguity" such as those characterizing fire insurance contracts in America prior to the adoption of a standard policy in most of the States in that country. Nevertheless few policy-holders know or care to know that the number of days of grace allowed by one company is thirty-one, and thirty by another, that incontestability begins immediately in the case of one but at the end of two years in another, or that there are varying provisions with reference to military, naval, and aerial services. Lack of uniformity in contract provisions cannot be said to be a hindrance to the development of life insurance in China just as it has proved to be no obstacle to its flourishment on the American continent. It seems safe to say, however, that the existence of a standard policy will do much to accelerate its growth.

Language of the Policy Contract

An outstanding point that cannot escape the observer's mind as he peruses the policy contract is the English version used. This applies also to the application which, however, is always accompanied by a Chinese translation. Occasionally a Chinese version appears with the English policy contract. This is true not only with foreign companies coming from English-speaking countries but quite often with Chinese companies registered in the Chinese Ministry of Agriculture and Commerce. In the case of one foreign company, this additional stipulation is found:

"Contract—The English text of this policy together with the application, a copy of which is endorsed hereon or securely attached hereto, shall constitute and contain the entire contract."

Another company adds the following elucidation:

"Miscellaneous Provisions. . . The legal contract hereunder shall at all times be construed to be the English version, and the Chinese version when attached hereto *to be the translation thereof solely for the accommodation of the policy holder.*"

Stipulations like this seem strangely perplexing, to say the

least. Their justification, if any, appears to be that the average policy-holder in China is fully conversant with the English language,—at least to the extent of reading and understanding the technical provisions of a policy contract. This is a supposition not in accordance with facts. Although it is true that few policy holders in a hundred ever read over a policy carefully so that it matters not whether it is in English or Chinese, the mischief arises when there is occasion for dispute between the company and the policy-holder or his beneficiary. Undoubtedly this is responsible for many of the unnecessary unpleasantries between the company and the insured, resulting in considerable damage to the popularity of life insurance. Japan sees fit to remedy the situation by requiring in her insurance laws affecting foreign companies[2] that in all cases policies and documents must be issued in the Japanese language.

As far as domestic companies are concerned, the practice of using contracts with foreign versions must be seriously deplored, and, it is hoped, will soon be discontinued. It can mean but one of two things: the total inability on the part of the insurer to understand the policy provision properly as to bring about its rendition into Chinese, or just another case of chronic indigestion so unfortunately true of many of those responsible for the introduction of foreign ideas and thoughts but failing to digest them properly.

Production Methods

Lack of Adequate Training for Agents—Insurance as it is sold to-day depends primarily upon the agent, whose duty it is to select the proper and the most desirable kinds of risk for the company and more than that to serve as insurance counseller and adviser to the insured. Unfortunately it is said[3] that few companies give really intensive and thorough training to their agents so that quite often the latter are totally unfamiliar with the subject matter, not to say the higher technique of salesmanship. "Up to date," writes one correspondent concurring

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[2] Principally Imperial Ordinance No. 380 issued in 1900 and Ordinance No. 30 issued by the Department of Agriculture and Commerce in 1912.

[3] Appendix II, Letter 3, p. 115.

with the above,[4] "I know of no company operating in China that has adequately tackled the problem of securing a whole-time field force based on careful selection and thorough training."

Rebating—Then, too, rebating, the practice in which the agent returns to the insured a part of his commission earned is "an accepted thing"[5] in Chinese business. Adds the same correspondent: "I do not think that any business is ever written by Chinese agents without the commission rebated. This has mitigated very largely against the possibility of building up a proper Chinese agency force." It is true that a few companies combatted courageously against the evil by dealing with it severely as with dismissal of the offender, which is certainly a significant sign, the general policy seems to be extremely lax. On this score it should be noted that one of the principles of insurance is the equitable distribution of costs, and this is violated in no small measure by this practice of rebating. What is more, it constitutes not only an injustice to the company, the insuring public, and the selling profession as a whole, but also to the offending agent himself because by returning part of his commission that legally belongs to him, he is robbing, by that much, his own self and indirectly, his family, not to mention the fact that he is correspondingly underestimating his own earning capacity.

Agents' Production Methods

Much criticism may also be advanced against the methods of production employed by the agents. It is known that a considerable amount of business is written on "face pidgin"[6] alone which is meant that a letter of introduction is given to the agent by one to his friend who probably does not want the insurance but who takes a small policy for the sake of friendship, only to lapse it the next year. Business is also obtained by methods allied almost to trickery. Thus, quite often the applicant is placed in a position as to be under an obligation to the agent[7] and cannot

[4] Appendix II, Letter 1, p. 111.
[5] Appendix II, Letter 2, p. 114.
[6] Appendix II, p. 119.
[7] Appendix II, p. 120.

possibly refuse the insurance. "It was quite an ordinary practice in the past," writes another correspondent,[8] "for an agent to give a big feast and then to insure all the guests who were frequently under the influence of liquor." If the foregoing be true, then one can quite understand why not only the mortality rate but also the lapse ratio was high. With reference to the latter it was estimated[9] by an actuary of the former China Mutual that on the average the business lasted less than five years on the books.

Overestimating, misrepresenting, and exaggerating participating profits is by no means seldom with the result that considerable disappointment was occasioned to the insured. Not only that, but an insurance manager actually declared: "We are all suffering from companies who can practically pay no profits at all and whose agents promised that an Endowment policy would double itself in twenty years."[10] Assuming that the agents are honest in their contentions, it is still true[11] that the general trend of life insurance propaganda is faulty and calculated to appeal to selfishness and greed rather than to the nobler sentiments.

What is still more painful is the fact that cases are not rare where upon payment of the claim by the company the agents extort squeeze upon the beneficiary so that a portion of the benefits finds its way into their pockets.[12] Even a casual reader will notice on the average advertisement page of any daily in Shanghai many notices, usually in large types, expressing "thanks" and "appreciations" for the payments, prompt or otherwise, of claims by insurance companies. Evidently it is forgotten that after all the natural duty of an insurance company is to settle its claims promptly and justly. To have to make known this fact to the public is tantamount to advertising for the company at the expense of the insured or of his beneficiary and may correctly be interpreted on the one hand as unintentional

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[8] Appendix II, p. 113.
[9] Appendix II, p. 120.
[10] Appendix II, p. 113.
[11] Hughes, *Op. Cit.*, p. 4.
[12] Appendix II, p. 115.

"squeeze" by the company and on the other a *de facto* reduction of the rightful policy benefits.

Part-Time Agents

Chinese agents are usually employed on the part-time basis. There are very few full-time well-trained Chinese life insurance agents.[13] It is rare to find an agent sold to the idea of life insurance as it is understood in the West. Life insurance is sold as a side-line, just as it is conveniently merged with the business of department stores or of banking institutions. But there is nothing more detrimental to a profession than the lack of concentration. When the life insurance commission does not constitute the main source of income, the salesman lacks an undivided interest, which considerably lessens his vigor to push the business and to conquer sales resistance. For one thing, the turnover and wastage in regards to agents is very high.[14]

Much of this is due to the concept and the state of mind with reference to insurance selling. We have already stated that there is a common, and wrong, notion among the unthinking public of placing the merchants and the traders at the bottom of the social ladder, thus giving insurance selling a very anomalous position. It is supposed to be "*infra dig*" to sell life insurance,—which is compared to peddling. The wise ancestors forbid that any of their children should leave the lofty pedestal of the scholar and be associated with the base living of a common peddler! Nothing is farther from the truth. Modern selling has long ago parted way from the cold door-to-door canvass, or the telephone directory. The personal interview is still retained because of mankind's obstinacy to answer its own needs. Insurance selling should be placed on an entirely different footing and be rightfully recognized as a profession. In recent years, insurance underwriters in America have organized a College of Underwriters which has for its purpose the giving of adequate, thorough and intensive training in insurance, salesmanship, and other allied fields, and the conferring on properly qualified applicants

[13] Appendix II, p. 111.
[14] Appendix II, p. 114.

the degree of C. L. U. (Chartered Life Underwriter), the recipient of which would receive the same degree of esteem and recognition customarily accorded to the Certified Public Accountant. This, it seems, is how the Chinese agent should properly view his profession.

Medical Problems

Problems of medical interest that concern the life underwriter are many and numerous, and naturally can be treated only in a very general manner. In general, the Chinese underwriter faces two types of medical practitioners: those versed in the native methods of medicine, and those trained along Western medical lines. Native practitioners, as distinguished from foreign trained medical doctors graduated either in China or abroad, have been serving the needs of the Chinese nation since time immemorial. They are still predominant, in number, if not in influence, in many places, and will likely continue to be so in the future. Opinions differ as to the relative skill between these two schools of medicine, and it is only natural that opinion should differ because while modern Western medicine has in recent years progressed in leaps and bounds there are still many existing contributions in Chinese medicine that would repay efforts to investigate and possibly introduce into the Western medical world. However, so far as life insurance is concerned and in the making of medical examinations, Chinese native medical methods are of little or no avail. Medical examination as it is known in Western medicine is unknown among Chinese medicos, and if known it is not used. Almost the only method of diagnosis and examination is "pulse study", and while "pulse study" is highly useful in the medical art, it can scarcely displace all at once such examinations as urinalysis, X-ray of the lungs, mouth, or digestive tracts, and, in short, those tests necessary for determining the general veracity of the applicants' answers to the many questions asked in the examiner's report. Evidently for purposes of determining the actual physical condition of the applicant, resort must be made to Western methods of examination. And after all, this is natural, for is not life insurance an institution originated in the West where such examination methods are used?

Lack of Modern Medical Practitioners

Resort, however, to Western medicine is also fraught with difficulties. In the first place there is dire need for such medical practitioners. Lack of statistics prevents giving the definite figure of the number of medicos practicing in the country. For the city of Shanghai alone which has a population well over a million some three hundred and seventy doctors of medicine were recently licensed to practice without being required to pass a qualifying examination by the Bureau of Hygiene for the Special Shanghai District instituted by the new Nationalist Government.[15] According to Tao and Chen[16] in their Bulletin on Chinese Education, there were at the end of 1925 only seven medical colleges excluding those universities, about thirty-five in number, some of which also offer courses leading to the degree of Doctor of Medicine. Unfortunately many of these institutions were in arrears financially due to the impotency and lack of funds of the Central Government. Even then, according to Dr. J. B. Grant in Peking, the immediate problem of medical education in China is to obtain sufficient students to fill the already established schools, due to the lack of sufficient science training offered in preparatory institutions, severely limiting the number of possible annual candidates.[17] Foreign missionaries were probably responsible in large measure for the introduction of Western medicine. Of the 3489 students enrolled in missionary colleges in 1925,[18] there were 243 pre-medical students not counting some 800 in professional training a certain portion of whom were undoubtedly engaged in medical studies. Chinese students going abroad for medical studies usually have Germany or the United States as their destination. Figures for those in

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[15] It should be noted that this figure does not include those who are taking qualifying examinations for their licenses a list of whom has not yet appeared. Nor does this include foreign practitioners who are outside the pale of Chinese jurisdiction but whose number is comparatively small. It is also interesting to note that native doctors, other than those who are foreign-trained, numbered 1529 who were thus licensed. (Figures quoted from the announcement by the Bureau of Hygiene appearing in the *Shun Pao*, January 3, 1928.)

[16] *China Year Book*, 1926, p. 409.

[17] *Ibid.*, p. 727.

[18] *Handbook of Christian Colleges and Universities* (1926), Bulletin No. 4; Summary in *China Year Book*, p. 430.

Germany are not available; in the United States there were in the year 1927–1928 fifty Chinese students enrolled in medical studies out of a total of 1485 students in the country.[19] Judged by the vastness of China's population and her territory, all these figures, though encouraging compared to the conditions ten or twenty years ago, denote the paucity of present and prospective medical practitioners. This is unquestionably a hindrance to the development of the life business, for many a prospective insurance applicant is lost due to the inability to secure medical examiners, especially in interior places. Thus complains an agent to his company:[20]

"Being two years with the Company, I have discovered the following difficulties:

"Cases have been lost through the delay of the doctor's attendance especially when the applicants are visitors to the place. Some can be recovered and some go on forever. To ask a doctor from Shanghai is very inconvenient. There is Dr. T....., Jr., but he takes pride in being a strictly temperate and religious man and hates all forms of debauchery and extravagance. His sublime solemnity and high sanctity often mortifies some of my friends; instead of being a help, he vexes them. Moreover, he is only at lesiure from 4 to 5 and has often refused to make the examination."

Professional Incompetence and Inadequacy

In the building up of a new medical science, it is only natural that there are found many of the errors and faults of an enterprise just making a start. Quite possibly, therefore, there are many among the new Chinese medicos whose skill is below par, so to speak, and in a way the colleges producing them cannot escape a measure of blame, as many of these have been conferring doctor's degrees for many years without being properly entitled to do so by any recognized authority or safely equipped for purposes of medical research and study.[21] Many of the women nurses on leaving hospital usually set up in private practice as "doctors".[22] Here the relation between medical selection and life insurance

[19] *Handbook of Chinese Students in U. S. A.* (1928), p. 80.
[20] Quoted from Hughes, *Op. Cit.*, p. 7.
[21] *Ibid.*, p. 6.
[22] *Ibid.*

must be stressed. The medical examination is one of the most, if not the most, important means whereby a company can exercise a measure of control over the mortality rate of its policy-holders. Where a fee is paid ranging in China from five to ten dollars for an ordinary sized policy, which, indeed, is by no means small compared to American conditions,—the company is perfectly within its rights to demand an efficient, thorough, and conscientious examination. Unfortunately, the benefits of the medical examination in Tropical and Semi-Tropical countries, including China, are known to be shorter. Thus, Arthur Hunter, from whom I have already quoted extensively, found that in regions where Tropical rates were charged, the ultimate rate of mortality was reached in the third year after the examination, as opposed to the customarily accepted five years in zones where the Northern rates are charged.[23] Whether or not this generalization is correct when applied to China needs to be determined by further research. Also, it may or may not denote a lower calibre of medical efficiency in these regions.[24] At any rate, the company is placed at a serious disadvantage.

Not only must the medical examination be watched carefully, but the company literally gets it "both coming and going." In other words, the medical attention that the average policy-holder receives in time of illness is often below par. Mr. A. J. Hughes, who has been in the insurance business in China for over twenty years and has passed for approval or otherwise death claims in these many years, confidently declared that[25] "quite a large portion of the deaths occur from diseases preventable in other countries and readily curable when they are contracted and that the diagnosis and treatment of the disease by old-style doctors are often such that the victim would have had a much better chance of recovery had he trusted solely to Dr. Nature." The truth of this statement may be seen in the fact that accord-

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[23] Hunter, *Mortality in Tropical and Semi-Tropical Countries*, p. 416.

[24] Other reasons advanced for the shortness of the period of medical selection are: (1) inclusion of unacclimated lives; (2) ignorance of insured *re* hygiene and medicine; (3) suppression of information regarding physical conditions; (4) climatic effects; (5) prevalence of diseases which cannot be eliminated by selection.

[25] Hughes, *Op. Cit.*, p. 7.

ing to native practices, medicine for internal consumption is often prescribed for cases of external injury, and the methods of healing are taken slavishly from old medical books—the older the better—[26] including such practices as charms, magic, and gymnastics.

To add to the difficulties, there are such other problems as famine, floods, droughts, plagues, and other natural cataclysms all of which have been unwelcome visitors in the Chinese household. Taking up the matter of epidemics alone, Dr. T. H. Huang, compiling what was the first epidemiological report on the subject,[27] disclosed that for the last eight months of 1925 reports of the more important, acute communicable diseases from the provinces except Kwangsi included such diseases as plagues, cholera, small-pox, meningitis, diphtheria, relapsing fever and typhus. The same report shows that in the matter of small-pox which is strictly preventable it is reported in virtually all the provinces, during most of the eight months, and the magnitude of the cases reported ranged from being "epidemous" in several cases in Shangtung, Fukien, and Chilhi, and "prevalent" or "sporadic" in about an equal number of cases, that is, approximately, fifty of each. Conditions like this are entirely beyond the control of insurance companies; they explain clearly why there is hesitancy in entering the business.

Need for Life Conservation Work

While we are now on the subject of deaths and diseases, perhaps it is well to diverge from the previous discussion for a while and stress the importance of life conservation by the insurance companies. Prevention of the occurrence of the risk or its total elimination is fast becoming the slogan of life insurance companies in the West. It is true that death cannot be averted, but its occurrence may certainly be delayed and the span of life lengthened. The insurance company has everything to gain by lengthening a policy-holder's life for it means many more premium payments and the longer use of the reserve funds in its keeping.

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[26] J. Dudgeon, *Chinese Arts of Healing*, in Chinese Recorder, Vol. 2, p. 164.
[27] *China Year Book*, 1926, p. 721, *et. seq.*

Evidently the modern life insurance underwriter should view the matter in a different light from the earlier fire insurance man in America who laughed at every outbreak of conflagration because it afforded that much chance for advertising the need for fire insurance protection.

Life Conservation work is badly needed in China. It is gratifying to know that several of the companies have made a beginning in this direction. Writing of his own company, Mr. Hughes made mention of the "Welfare" Department of the China United Assurance Society,[28] which is inspired by and based on the example of the Metropolitan of New York, probably the most gigantic of life insurance institutions and one of the forerunners in the field of life conservation work. The Asia Life, replying to the writer's inquiry, states thus:

"We are developing a staff of doctors to work in our branch offices on a salary. Through these doctors we are able to furnish free medical examinations to policy holders. We also publish in Chinese and English a considerable amount of information on health matters which we distribute through our branch offices and through the Y. M. C. A. and other benevolent organizations. We have plans for the establishment of a sanitorium and systematic work on T. B. (tuberculosis) which is perhaps the greatest cause of death in this country. Unsettled political conditions have made it undesirable to push this work at the present moment."

Initiative work of this nature is deserving of mention. It is hoped that the enlightening examples of the Metropolitan and also of other companies in Japan[29] will lead other Chinese companies to follow and that in the case of those companies already making a start the work will be pushed considerably when conditions so permit.

Non-Medical Insurance

As a way out of the medical problems, especially the lack of medical examiners, the possibility of non-medical insurance may

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[28] Hughes, *Op. Cit.*, p. 10.

[29] See Dr. Frankel, of the Metropolitan, in *The Rôle of the Life Insurance Company in Health Conservation Work, Ann. Amer. Acad.*, March 1927.

be discussed. By non-medical insurance is meant the granting of insurance by insurance companies without requiring a physical examination in the presence of a medical examiner. It will be recalled that although the Amicable of Great Britain, founded in 1705, had conducted a successful business for many years without requiring that applicants should be subjected to a physical examination, non-medical insurance in its present form was not introduced into the American continent until January 1, 1921, by a Canadian company.[30] The reasons for its introduction into Canada were (1) the demand for increased examination fees on the part of the medical profession; (2) the limited number of doctors and the sparsely settled conditions of the country; and (3) general dissatisfaction on the part of "Home Office" officials over the calibre of examinations made.[31] Hence, in the non-medical business, the medical examination was waived, one of the main justifications being that it is one of the ten methods[32] used for determining the insurability of a risk, and the experiences of Canadian companies show that over 85 per cent of all applicants for ordinary life insurance are qualified by the medical examination anyway,[33] so that conceivably salvages from medical fees saved could well make up the excess mortality from the remaining 15 per cent. Of course, the medical examiner as a factor in the selection of lives is not to be abolished altogether.[34] Now, we have already noted the less enduring effect of the medical examination in regions where Tropical and Semi-Tropical rates are charged, and also the limited number of medical examiners. Non-medical insurance then, would seem to be a fit subject for introduction. Unfortunately, this presupposes the existence of a well-trained sales force, of effective inspection departments, of the willingness on the part of the applicant to impart medical and family histories, and also, of a reasonable degree of certainty with regard to the rates of mor-

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[30] Arthur B. Wood, *Influence of the Medical Examination On Life Underwriting*, Proceedings of Life Insurance Presidents, 1925, p. 142.
[31] *Ibid.*, p. 147.
[32] Harold F. Larkin, A. A. S., *Non-Medical Life Insurance*, Ann. Amer. Acad., March, 1927, p. 65.
[33] Wood, *Op. Cit.*, p. 143.
[34] *Ibid.*, p. 144.

tality. Before these conditions are attained, the introduction of non-medical insurance would, in the present writer's opinion, be fraught with danger.

Miscellaneous Problems

(a) The Force of Outside Competition.—Competition between domestic companies cannot be said to be severe in any sense of the word for the simple reason that the field is disproportionately large compared to the number of companies operating. The effects of competition between domestic and foreign companies will be brought up in the following chapter. For the present, what real competition there is, aside from the general profitable nature of other investments, comes from such organizations as savings societies and similar structures of a speculative, semi-speculative, and gambling character. In recent years, there has been a mushroom growth, especially in commercial centers, of so-called savings institutions which offer regular drawings for prizes that appear enormously big compared to the tiny bits of savings periodically turned in. At the same time, the ordinary industrial worker, lacking the finances to subscribe to such savings institutions, finds thrills and expectations in the purchase of lottery tickets of which there are many on the market. The combination of hard-times and the desire to "get-rich-quick"—the latter possibly of foreign origin, has made people unmindful of the future. The ordinary insurance salesman, not knowing the fundamental concept of insurance as a creator of an estate and unfortunately stressing only the investment element of life insurance, quite often finds himself at a loss against the argument of the prospect who points to the expected returns from a semi-speculative savings account or the possibilities of a lottery ticket.

(b) The Need For Co-operation.—Co-operative organizations, such as underwriters' associations, actuarial societies, agents' organizations, or associations of life insurance presidents, etc., as those in America, are practically non-existent among Chinese companies. The lack of co-operation may be seen in the fact that even until now they have failed to come together to compile a report of the aggregate amount of insurance on

their books. Failure to co-operate deprives the companies of the following benefits: (1) interchange of knowledge and data pertaining to mortality and other insurance matters; (2) supervision of brokers and agents; (c) elimination of objectionable practices; (4) economy in the conduct of business such as the maintenance of central inspection bureaus, etc.; (5) agitation for healthy legislation; (6) life conservation work; (7) education of the public; and (8) re-insurance facilities.

(c) Lack of Insurance Knowledge.—Failure on the part of the companies to co-operate in properly educating the public respecting the benefits of insurance protection constitutes a material hindrance to the development of the business. Certainly a business cannot grow if its benefits are not known or its existence heralded. For this neglect, the companies cannot escape a large measure of the blame; but, in general, as already stated,[35] there is an appalling lack of insurance education in the colleges and universities. It is not until recent years that students studying abroad began to specialize in insurance subjects, and in 1926 there were registered in American universities only four students of insurance out of a total of 1413 students in the country.[36] Fortunately, progress is being made in many respects. There is little doubt that Chinese colleges are beginning to pay more attention to the subject. The appearance of several Chinese textbooks on insurance[37] in the market denotes, in a way, the demand for such literature. One of these texts was designed for use in Senior Commercial High Schools. This introduction of the study of insurance into institutions of preparatory learning is certainly significant.

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[35] *Supra.*, p. 28.

[36] *Handbook of Chinese Students in U. S. A.* (1927), p. 85.

[37] Such as Wong's *Principles of Insurance*, published by the Commercial Press, Shanghai, China; and Zee's translation of Prof. S. S. Huebner's authoritative work on *Life Insurance*, also printed by the Commercial Press.

CHAPTER VI

The Problem of Foreign Companies

Extent of Foreign Operations

Reference was made in a previous chapter to the predominance of foreign companies in the Chinese life insurance field.[1] To recapitulate, one may say that the history of life insurance in China is essentially one recording, on the one hand, the coming and going of foreign life insurance corporations, and, on the other, an increasing hold on the business by those that chose to remain. No accurate statistics can be had; but it may be said, as a rough estimate,[2] that over four-fifths, perhaps more, of the existing volume of life insurance in China on both Chinese and alien lives are found on the books of companies whose charters came from foreign governments. Of this amount, a large portion would be on the lives of alien residents. In this connection, the opinion of the manager of a foreign branch office in Shanghai is illuminating.[3]

"Roughly, I estimate that the amount of new business issued and paid for last year (*1926*) in China, exclusive of Hongkong, was about G$12,000,000 —of which about half was on the lives of Chinese and the other half on the lives of foreigners, principally Americans and British living in China. Of the above amount, the three foreign companies, namely the Sun Life of Canada, Manufacturers Life, and the West Coast Life Insurance Company of California probably wrote G$7,000,000,—and the remainder was written by the five Chinese companies.

"Of the business written by the three foreign companies, about 85 per cent is on the lives of foreigners and about 15 per cent on the lives of Chinese.

"These percentages are in regard to volume of business. In number of applications I should think that 60 per cent are foreign and 40 per cent are Chinese, but the average foreign policy is very much larger than the average Chinese policy."

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[1] *Supra.*, p. 11.

[2] It will be recalled (Supra., p. 13) that one foreign company claims that it alone has more than half of the business in Northern China.

[3] Appendix II, Letter 2, p. 112.

Foreign predominance is seen not only in the life field, but also in other fields. The China Year Book of 1926, after observing that a number of Chinese insurance (fire, marine, etc.) companies also operate,[4] ventured the opinion that except perhaps in the life field, they are not very serious competitors. Judging, however, from the foregoing, even these Chinese life companies are not such serious competitors after all. Perhaps, the situation is worse in the other fields. Thus, it is found that in August, 1927, as many as 128 fire and 61 marine companies were members of the Shanghai Fire Insurance Association and of the Shanghai Marine Underwriters Association respectively, both organizations being composed entirely of foreign companies.[5] In both cases, British interest predominates, with American and Japanese interests following second.[6] As yet there is no considerable demand for the numerous other classes of insurance catered for in Western countries, but where such is written, it may be reasonably expected that the carrier is a foreign company.

Legal Status of Foreign Companies

Under extra-territorial agreements, foreign companies operating in China are governed by the insurance codes of their respective governments, except in cases where such extra-territorial rights have been rescinded, as with the Entente Powers after the Great War, or voluntarily given up as with Soviet Russia, or terminated by the Chinese Government at the expiration of these treaties with certain powers. There, are, therefore, as many foreign insurance codes enforced in China as there are the number of countries represented that enjoy extra-territorial privileges. In general, however, foreign companies may be governed under one of the following laws or ordinances:

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[4] *China Year Book*, 1926, p. 610.

[5] *Ibid.*, 1928, pp. 1213, 1214.

[6] Of the 128 companies in the Fire Association, 73 were British, 16 American, 16 Japanese, 10 Dutch, 5 French, 2 Italian, 2 Swiss, 1 Norwegian, 1 Swedish, and 2 Danish.

The distribution of the 61 marine companies follows: 43 British, 8 Japanese, 3 American, 2 Swiss, and 1 each, German, Italian, French, Dutch, and Danish —(*China Year Book*, 1928, pp. 1213, 1214).

(a) *Chinese Commercial Organization Ordinances*—This is also incorrectly translated as "China's Corporation Regulations"[7] and was promulgated by presidential mandate on Jan. 13, 1914.[8] Except with reference to mining operations in which the law prohibits foreign participation to a greater extent than fifty per cent of the investments,[9] the ordinance does not discriminate against foreign interests desiring to be so governed. Nor does it prevent foreigners from taking shares in a Chinese company when it is once established. In fact, the right of nationals of the Treaty Powers to hold stocks in Chinese corporations was secured in the Anglo-Chinese Treaty of 1902, and the Sino-Japanese Treaty of 1903. This right applied to Chinese companies outside of, as well as within, the Treaty Ports.[10]

For practical purposes, no foreign firms are registered under this ordinance, for the simple reason that extra-territorial jurisdiction could not then be had. Also, "it is a very unsatisfactory piece of legislation," to quote from a prominent Chinese attorney at Shanghai,[11] "as it contains many contradictions and cites too much detail." We may also add that for the purposes of insurance regulation, it is far too simple, and does not provide for the necessary machinery.

(b) *Hongkong Company Ordinances*[12]—As Hongkong is a British Crown Colony, being ceded by China in 1841, it has its own corporation and company laws. These include the *China Order, 1904*, also known as the *Principal Order;* the *Life Insurance Companies Ordinance, 1907, of the Colony of Hongkong; the Companies Ordinance, 1911;* the *China (Companies) Order in Council, 1915*, and subsequent amendments added thereto in 1919 and 1921.

Life insurance bodies, therefore, may choose to operate under

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[7] It is of much broader application than on limited companies, as it purports to govern partnerships and joint stock companies as well.

[8] Chen & Allman—*The Modern Commercial Legislation of China*, p. 27. These ordinances were later revised in 1914, and in 1923.

[9] Chinese Mining Law of 1914, Article 4.

[10] Willoughby, *Foreign Rights and Interests in China*, p. 186.

[11] Quoted in *Incorporation of American Firms in China*, by A. Viola Smith, in Arnold's *A Commercial Handbook of China*, 1926, p. 142.

[12] See *China Year Book*, 1919, Section on British Company Law in China, p. 647, *et. seq.*

these ordinances. Prior to the enactment of the amendments in 1919, a large amount of foreign (other than British, but principally American) and Chinese capital took advantage of the facilities for incorporation or registration to do business offered by these ordinances. This was true because by so incorporating, foreign (primarily American) interests were then subject to extraterritorial jurisdiction in China and at the same time were made able to avail themselves of the freedom from the burden of home taxation other than the payment of a nominal annual license fee.[13] Chinese bodies also saw fit to be thus incorporated, as in this way their status was made equal to that of a British company and they were thus entitled to the benefits of extra-territoriality

The amendments, however, of 1919,[14] adopted on Oct. 9 of that year, made it mandatory that

"No person other than a British subject resident within the limits of this Order shall act as managing director or in any position similar to that of managing director, or shall otherwise exercise general or substantial control of the business of a China Company."[15]

Previous provisions had made it only necessary that (1) the majority of a China Company Directorate shall be British subjects resident within the limits of this order; (2) only a British subject shall be auditor, or liquidator, or receiver, of a China Company.[16] Thus, the enactment of the amendments called for direct British control and management of China Companies. It dealt foreign (other than British) interests a heavy blow, as the editorial of *Millard's Review*, January 3, 1920, correctly observes:

"The chief companies in Shanghai containing an American interest that are affected are: life insurance, real estate, hotels, shipping, manufacturing, and lumber. The effect on companies with Chinese capital was not so serious as they could then very conveniently transfer their allegiance to the Ministry of Agriculture and Commerce in Peking."

[13] A. Viola Smith, *Op. Cit.*, p. 140.

[14] For text of amendments, see *Millard's Review*, January 3, 1920.

[15] By definition in the China (Company) Order in Council, 1915, a China Company means "a company limited by shares or by guarantee incorporated under the ordinance and the operation of which are directed and controlled from some place within the limits of this order."

[16] China Companies Order in Council, 1915, Articles VIII, (1), and IX and X.

Also, there are hundreds, if not thousands, of Chinese residents in Hongkong who are British subjects and who would very willingly accept these new positions of managing directors created by the law. Besides, it would be unreasonable to expect that no *bona-fide* alien would be found ready, for a consideration, to lend a corner of his flag for the protection of an enterprise not exactly his own. Even today, remarks one writer, considerable American capital is still using this method of incorporation.

(c) *British and Canadian Assurance Laws*—British and Canadian insurance companies having branches and agencies in China, naturally choose to operate under the codes of their respective governments in which they were incorporated. Thus, the codes applicable to British companies are contained in the British Life Assurance Act of 1909 while Canadian companies are governed by the Insurance Act of 1917, and subsequent amendments thereto, of the Dominion of Canada.[17]

(d) *American State Laws*—American companies are governed by their respective state laws from which they receive their charters to do business. At present there is no Federal law governing the operation of insurance companies in all the states, the United States Supreme Court having repeatedly refused to declare an insurance contract an instrumentality of commerce[18] and thus held the position that this lies beyond the powers of the Federal government to regulate interstate commerce. In 1922, the China Trade Act was passed by Congress, and was later amended in February, 1925, for the special purpose of giving to American trade enterprises a Federal incorporation law for the incorporation of American companies to operate "within China". While this measure was intended "to place American corporations found under the Act whose owners are Chinese or American residents in China, on an equality with corporations of other nations who now are exempt from corporation income tax on profits derived from business done wholly within China",[19]

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[17] For Copy of Law, see Office Consolidation of the Act by the Department of Insurance, Ottawa, Canada.

[18] S. S. Huebner, *Life Insurance*, p. 372.

[19] Statement by the United States Department of Commerce, in *The Commercial and Financial Chronicle*, October 7, 1922, p. 1587.

insurance falls outside the pale of its administration, since Section 4 Subdivision (7)c specifically stipulates its exclusion.[20] Nor are American interests permitted any more to incorporate under the Alaskan Code created by the Act of Congress of March 2, 1903, a course formerly open to American business men, but now discontinued through an amendment in the China Trade Act.[21]

It appears that American companies operating under State laws, and subject to whatever regulations these may impose and also to the Corporation Income Tax requirements of the Federal Government, suffer a disadvantage as compared to companies of other nations. One writer says that "no other nationals operating in China have been so taxed by their home governments as Americans."[22] This combined with the factors such as the uncertainty of the business in China and the existence of a promising field at home is probably the reason why American life companies are not such a potent factor in the Orient.

The Case For Foreign Companies

Thus far we have sketched briefly the extent of operations of these foreign companies and the statutes under which they are governed. It remains now to see in what ways the presence of these companies has been of real benefit.

(a) Stringent Government Regulation—To begin with, we must mention that in general there is stringent government regulation exercised over these foreign companies by their respective governments. It is true that these are, at best, varied, differing with different nations, but they can at least match, if not surpass, the best of the regulation at present offered by China's own company ordinances. To be sure, there are many exceptions; yet the general appraisal remains true nevertheless.

(b) Financial Strength and Integrity of Management—Many of the foreign companies operating in China represent successful

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[20] "A China Trade Act corporation shall not engage in the business of discounting bills, (etc.) nor engage in any other form of banking business; nor engage in any form of insurance business;. . .", China Trade Act, 1922, Amended 1925, Section 4, Subdivision (7)c.

[21] *Ibid.*, Sec. 29.

[22] Smith, *Op. Cit.*, p. 140.

and prosperous institutions at home who have amassed huge reserves and surpluses and are now venturing into foreign fields for the benefits of experience and world-wide distribution of business. In a way their stability is beyond question. They exemplify the achievements of science and the integrity of management. Because of their financial strength and experience, they are able to furnish insurance protection in a very equitable manner.

(c) The Honoured Rôle of the Pioneer—Appraisal must be made of the tremendous services rendered by these companies in introducing the business into the country. This consideration is not merely a sentimental one, as it has behind it concrete support. In the first place, these companies are peculiarly situated, since they operate in China and in Western nations, to introduce from time to time the best of the new that is found in the insurance business in those places where it thrives and prospers. Secondly, they have long been furnishing protection to those in China who want it—no matter how few there are—at a time when the possibilities of insurance are little understood. They have paved the way for further development of the business, in giving the necessary insurance education, and making researches in various directions such as mortality investigations and sales analysis. In short, the honour that falls on the pioneer is rightfully theirs.

The Case Against Foreign Companies

(a) Life Insurance a Commercial Weapon—Marine insurance has been generally recognized as a commercial weapon.[23] It is difficult to see why life insurance cannot be thus classified. Life Insurance takes care of the past accumulations of a people, receives their present earnings, and safeguards their financial future. It represents a tremendous force in the field of investments and wields a power that can well shape the industrial and commercial destiny of a nation. If the enormous assets of life insurance companies in America were in alien hands, the industrial history of the American nation would have been

[23] S. S. Huebner, *Marine Insurance*, p. 8.

totally different. In the same manner the danger of too strong a grip in the life business in China by foreign companies must be averted.

Thus far, foreign companies doing business in China with their accumulations of surpluses and reserves, a large portion of which belongs to Chinese policy-holders, cannot be said to have aided to any great extent the development of Chinese industries. This is a serious indictment; unfortunately it is true. Of course there is the objection that few Chinese securities are found in the market, and that they are rarely gilt-edged. Still it would be difficult to believe that of all the enterprises in China, industrial, commercial, or agricultural, of which there are numerous, none of them is worthy of support. Investments of many of the foreign companies in China, as a survey of their financial reports shows, are centered, except in the case of one or two issues of Chinese Government bonds, in securities in Shanghai, of a municipal, semi-municipal nature, but mostly, if not entirely, under the control of foreign capitalists. The case is well illustrated by the disposition of the Cash account of one company:

CASH ACCOUNT, DECEMBER 31, 1925

Deposit in Bank of China (Chinese)	$ 70.82
Deposit in Hongkong and Shanghai Banking Corporation (British)	146,925.22
Deposit in Banque Industrielle de Chine (French), *in liquidation*	28,140.81
Deposit in Banque de l'Indo Chine (French)	60,055.87
Total	$235,192.72

Per cent deposited in Chinese bank, .0003.

Perhaps it should be recognized that as long as Chinese funds are in the hands of alien companies, the latter are entitled to do wisely whatever they please with them. And indeed the wisdom of their choice in investments is sometimes beyond question. Chinese policy-holders, however, cannot quite see the logic where their hard-earned savings which they have accumulated through

sweat, brain-work, and self-denials, sometimes in desperate struggle with the foreign capitalists, are now used by foreign organizations to finance projects directly in competition with their own. To them life insurance is rightly conceived as a commercial weapon, and they do not feel at all comfortable when it is wielded by alien nationals.

(b) Extra-territoriality—Extra-territorial privileges[24] enjoyed by foreign companies constitute an important argument against them. In the first place, such advantages are denied to Chinese organizations which are then placed on an unequal footing and are necessarily handicapped in competition. Policy-holders are also made to suffer. All might go well if there could be no difficulty between the insurer and the insured, but if trouble does arise, then the insured or his beneficiary is compelled to seek jurisdiction in an alien court.[25] In such a case, the equity of the alien law and the fairness of a foreign judge, oftentimes a consul, should not perhaps be questioned, but the inconveniences that are occasioned to the Chinese claimant must be visioned. Thus, if a widow in an interior place has a claim against an alien company, she is forced to bring her case to the court of the defendant company's consul or other authorized official of his government, although the nearest one may be hundreds of miles away. On the other hand, the foreign company, in his suits against Chinese, is aided to the fullest extent by the advocacy of its own official representative, the consul.

However, extra-territoriality is not an unmixed blessing to the foreigner. It has its own disadvantages.[26] Probably the most important one is that as long as it is maintained, it remains practically impossible for the Chinese government to open up the entire country to trade, commerce, and manufacturing. This means that active agencies and branches cannot be set up by foreign companies in interior places and thus the advantages of a wide distribution of business cannot be had.

(c) Competition Against Native Business—This must be

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[24] A lucid account of these privileges is found in H. B. Morse's *Trade and Administration of China*, p. 190.
[25] Willoughby, *Op. Cit.*, p. 25.
[26] *Ibid.*, pp. 72–75.

viewed in all its seriousness. Much has been written in the West about the conflict between big and small businesses. The case is essentially same in China, except that here big businesses are usually represented by the foreigners whereas the Chinese constitute the larger portion of the small businesses. In insurance, particularly, where stability and size are of important consideration, the case reverts to the great disadvantage of the Chinese companies. One may well imagine on the one hand foreign companies whose assets run into billions, not to mention their experience and recognized stability, and on the other small Chinese concerns just making a start in life. Even after a substantial cutting of rates and rebating, only the worst of the poor risks are left over to the Chinese underwriters who, in the absence of re-insurance arrangements which is nobody's fault but theirs, are none too ready to accept amounts above a certain maximum.

(d) Disparaging Rates Between Chinese and White Risks—Many of the foreign companies are known to charge different, unequal, and disparaging rates between Chinese and white risks. Chinese applicants are accepted only on the Endowment plan of insurance, with age limits, and at rates higher than those on white risks. The situation is summarized by the following answer in response to the writer's inquiry:[27]

"As far as (we) are concerned, our business on Chinese lives is confined strictly to the Endowment plan. For applicants up to age 45, we are prepared to issue 20 Year Endowments. For applicants from ages 45 to 50, 15 Year Endowment is the longest term we will issue, and from ages 50 to 55, 10 Year Endowments. These regulations are due to the fact that while individual Chinese live to very old ages, the average length of Chinese lives is much shorter than that of Europeans, and the death rate rises very rapidly after age 50.

"Our rates for Chinese are also higher than for Europeans averaging about $5.00 per $1000 of insurance higher in South China, and from $3.00 to $4.00 in North China."

With reference to the same question, another company thus elucidates its position:[28]

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[27] Appendix II, p. 110.
[28] Appendix II, p. 119.

"In reply to your second question, formerly we charged the same rates for whites and Chinese limiting the Chinese to endowments maturing around age 65. Owing however, to the favourable mortality amongst whites, a lower rate is now charged for white risks.

"The rate for Chinese is semi-tropical for North China, and for whites a mean between home rates and semi-tropical. I mean by North China roughly above the Yangtse River."

The justification for such disparity seems to rest on the assumption of an unfavourable mortality showing of Chinese risks. That the average non-Caucasian risk is a poor risk seems to be an accepted maxim among Western actuarial circles. "Orientals and negroes especially make a poor showing as regards longevity."[29] Arthur Hunter, from whom I have already quoted extensively, stated, in a paper on "Mortality Among Non-Caucasian Races" presented before the Fourth International Congress of Actuaries, that "the mortality among Chinese in China and in Eastern ports is fully two times as large as insured lives of Americans in the United States, or Englishmen in Britain, and is practically the same as among natives of India in India."[30] Twenty years later, 1926, in another paper before the Actuarial Society of America, he had occasion to amplify and substantiate his earlier statement when he showed that among Chinese insured the rate of actual to expected mortality calculated according to his own Semi-Tropical Table is 147 per cent in amount and 115 per cent in policies.[31] We have already referred to the fact that most of this insurance written was on the lives of wealthy Chinese "mandarins" and individuals.[32] Other actuaries having occasion to touch on the subject are uniformly of the opinion that Oriental risks are inferior.[33] The mortality experience of one Chinese company[34] gives a q_x (the probability of death in a given year)

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[29] C. K. Knight, *Advanced Life Insurance*, p. 231.

[30] *Proceedings of the Fourth International Congress of Actuaries*, p. 142. Mr. Hunter based his observations on the statistics of two American and one Canadian companies.

[31] *T. A. S. A.*, Vol. XXVII, October, 1926, p. 262.

[32] *Supra.*, p. 57.

[33] See, for instance, S. C. Thomson, *Notes on Mortality in India and Some Other Tropical Countries*, in Proceedings of the 4th International Congress of Actuaries, pp. 111–122; and Tsuneta Yana, *On The Mortality of the Japanese*, *Ibid.*, pp. 123–132.

[34] See Appendix I.

higher in many ages than that represented in the Semi-Tropical Table which, as we have seen, already registers a mortality approximately one and one-half times that in America. Little or no record is found on mortality among Chinese residents in America,[35] but investigations of Japanese mortality in the United States and Canada for years 1906–1922 disclosed a ratio of actual to expected mortality measured by the American Men's Select Table of 156 per cent by policies as well as by amounts insured.[36] Finally, to illustrate the effects of climate and environmental factors in the Orient, it is found that foreigners (whites) in China experience a much higher mortality rate than in their home countries,[37] the ratio of actual to expected deaths by the A. M. Select Table being, in one case, 149 per cent by policies and 163 per cent by amounts.

Fortunately, or unfortunately, the case is not wholly against the Chinese. Various people have expressed the opinion that the yellow race exhibits a greater vitality than the whites. The following rambling quotations from an eminent sociologist, Professor E. A. Ross, are of interest:[38]

"If, now, for generations we whites, owing to room and plenty and scientific medicine and knowledge of hygiene, have been subject to a less searching and relentless elimination of the weaker children than the Chinese, it would be reasonable to expect the Chinese to exhibit a greater vitality than the whites . . . I closely questioned thirty-three physicians practicing in various parts of China, . . . (and) of these only one, a very intelligent German doctor, had noticed no point of superiority in his Chinese patients. . . . Three other physicians, each of whom had practiced a quarter century or more in China, had observed no difference in the physical reactions

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[35] In Mr. Hunter's article on *Mortality Among Non-Caucasian Races*, already referred to, the ratio of actual to expected deaths measured by Am. Exp. Table of Chinese natives in the United States and Canada, was only 43 per cent. Apparently the data were insufficient to justify any conclusion. An attempt was also made in the Medico-Actuarial Mortality Investigation (Vol. II, 1913) to study the mortality among negroes, Chinese and Japanese in North America, but the results were indiscriminately mixed under the heading "Colored Races".

[36] Arthur Hunter, *Mortality Among Japanese*, *T. A. S. A.*, Vol. XXV, 1924, pp. 204–209.

[37] Hunter, *T. A. S. A.*, Vol. XXVII, October, 1926, p. 263.

[38] *The Changing Chinese*, Ch. II, pp. 33–48.

of the two races. I fancy their recollections of their brief student practice at home had so faded with time that they lacked one of the terms of the comparison. Moreover, two of these admitted under questioning that the Chinese do stand high fevers remarkably well and that they do recover from blood poisoning where a white man would die.

"The remaining 29 physicians were positive that the Chinese physique evinces some superiority or other over that of their home people. As regards surgical cases, the general opinion is voiced by one English surgeon who said, 'They do pull through jolly well'. . . . I was told of a coolie who had his abdomen torn open and who was assisted to the hospital supported by a man on either side and holding his bowels in his hands. He was sewed up, and made a quick recovery. . . .

"I have seen coolies after two hours of burden bearing at a dog trot shovel themselves full of hot rice with scarcely any mastication, and hurry on for another two hours. A white man would have writhed with indigestion. . . . Here and there a doctor ascribes the extraordinary power of resistance and recuperation shown by his patients entirely to their diet and manner of life and denies any superior vitality in the race. Other doctors insist that under equal circumstances the yellow man has a firmer hold on life than the white man."

Thus, we have debated at length this question of comparative mortality. The discussion may be extended to infinity without arriving at a definite conclusion, as long as conclusive actuarial figures cannot be had. However, it seems that against unfavourable climatic conditions, in the absence of adequate medical facilities, and with unwholesome, unsanitary environments, the Chinese do exhibit a higher mortality rate than that of Westerners, although opinion must be reserved with reference to the inherent vitality of the individual Chinese physique.

Even then the problem of charging disparaging rates between Chinese and whites cannot be dismissed so easily. It must be considered from another angle. These foreign companies are doing business in China, as guests, we may say, of the Chinese people. In cordial Chinese way, we may well question whether it is within the realm of business ethics, or in accordance with the laudable sense of good-will, to charge a Chinese applicant a higher rate than a Westerner, not to mention the other limitations? In Western countries where the white man holds complete sway, instances are not rare where legislatures forbid dis-

criminatory rates between whites and negroes.[39] Thus far we have refrained from the use of the word "discrimination", for fear that the discerning actuary may find ground to object. To the average Chinese policy-holder who notices that he pays $2 to $3 more for his policy than his American neighbour, this is discrimination, pure and simple. And so in one sense it is. Rightly or wrongly, Japan has decreed in no uncertain terms that under no circumstances are foreign companies permitted to discriminate between Japanese and foreigners. Both must be charged the same rate, and when living in a Northern climate are entitled to a rebate in premium. The case of China, with its rising tide of nationalism, may well be reviewed by the foreign companies at large.

It appears from the foregoing that two rational alternatives are open to the foreign life company in China: (1) to solicit, accept, and write white and native risks on bases of complete equality; and (2) to confine its business on white lives alone. The expediency of the latter will be presently discussed.

(e) Concentration on Foreign (White) Lives: The general policy of foreign companies in China, except one or two who, one may say, more or less specialize on Chinese lives, is to concentrate their business on alien (white) lives, accepting only the "best of Chinese risks". Their efforts to push the business among the Chinese may be characterized as, at best, half-hearted. For this there are, of course, many explanations among which are such political, economic, social and other factors we have already dwelt upon. The policy, however, is highly unfortunate, for many reasons. In the first place, the possibilities of extensive educational campaigns and particularly of employing whole-hearted sales forces are ignored. But one can never tell what these may accomplish. Secondly, concentration on foreign lives can never increase the business to any great extent, for the simple reason that the number of foreigners (whites) in the country is not, and has never been, very large. Thus, in a normal year like 1925, prior to the recent outbreak of the so-called anti-

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[39] See, for instance, Baldwin, *New York Insurance Law, Annotated*, 1927 p. 200, § 90.

foreign sentiments, the number of aliens in the whole of China was as follows:[40]

NUMBER OF WHITE ALIENS IN CHINA
YEAR 1925

British	15,247
Americans	9,844
Russians	79,785
Others	13,614
Total	118,490

Of this number we must mention those who are physically unfit and thus who can never pass a medical examination, those whose future is well cared for by pension provisions so that their incentive to purchase insurance is somewhat lessened, and those who are financially unable to pay, or, if able, unwilling to pay. The result leaves only a very small portion to whom insurance has access. But this is not all. Of this small group many are scattered throughout the length and breadth of the country and many have come only for short periods of stay. Then there are varied temptations which confront the foreigner who has left behind him the moral and social codes of his own people and has not yet, perhaps, adapted himself to those of his new home. Alcoholic beverages are available in cases where their use would have been abstained from because of social or legal restraint. Finally, to the newcomers, the difficulty of acclimation is an acute one.

Foreign companies, therefore, should not, as a matter of expediency, concentrate their business on white lives. Such concentration, we may say, is one reason why life insurance in China has never progressed to any great extent. The alternative is for these companies to write both white and native risks, and further than that, perhaps to concentrate more on Chinese lives, since the possibilities of the latter are recognized to be immensely great. Even then the situation is not entirely remedied unless the arrogant sense of white superiority in mortality and physique

[40] *Foreign Nationals in China*, Chinese Economic Journal, June, 1927, pp. 531–533.

is relegated to the background and both white and native risks treated on a basis of complete equality.

Need For Supervision and Regulation of Foreign Life Insurance Companies

The regulation and supervision of foreign companies is a matter of deep concern to legislatures in Europe, America, and Japan. In the United States, for instance, distinction is drawn, in the insurance laws of the several states, not only between "domestic" companies, i. e., companies chartered in the state in which the law applies, and alien companies which have their home offices outside of the country, but also between "domestic" companies and foreign companies chartered in other states of the Union. Both foreign and alien—sometimes indiscriminately called foreign—companies are subject to strict supervision. The insurance laws of Canada, in addition to making other requirements,[41] decree that a foreign, or a British, life company must deposit with the Minister of Finance designated securities to the value of $100,000,[42] which is double the amount required of Canadian companies. In Great Britain, a regular foreign company can operate there subject to the approval of the Board of Trade and the deposit of 20,000 pounds sterling in approved securities with the Court. Foreign companies in Japan are subject to the provisions contained in Imperial Ordinance No. 380 issued in 1900 and Ordinance No. 30 issued by the Department of Agriculture and Commerce in 1912.[43] Commencement of business is allowed on deposit of Y150,000 in Japanese Government bonds with the authorities, and the deposit is subject to increase to not more than 60 per cent of the reserve liability. In addition to prohibiting discriminatory rates between Japanese and foreign nationals, the ordinances provide for the issue of all policies and documents in the Japanese language. The last is in substantial agreement with the provision in French insurance

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[41] See *The Insurance Act*, 1917, Dominion of Canada, Section on Foreign Companies.

[42] *An Act to Amend the Insurance Act of 1917*, assented to April 14, 1927, p. 272.

[43] *Japan Year Book*, 1927, p. 410.

laws that all documents and policies must be drawn up in or translated into the French language, and, if translated, the French text constitutes the only proof of insurance.[44]

This hasty review makes it clear that the general policy of Western nations with regard to foreign companies is to subject them under regulations apart and in addition to those applicable to domestic companies. This should not be interpreted as a necessary reflection on the calibre of supervision exercised by the several governments from which these foreign companies receive their charters. It is as likely as not that the strong arm of law cannot reach across continents and high seas to govern efficiently, and effectively, companies located in a foreign country and operating under totally different conditions, commercial or otherwise. Aside from the question of sovereignty, the pivotal point is that the welfare of the nationals at home must be safeguarded. Therefore, unfortunately the chief hindrance with which China must contend at present is the lack of the power of jurisdiction over alien companies within her soil and writing policies among her own people. This is another curse of the extra-territorial régime. However, extra-territoriality is known to be on its decline, and with the co-working of such factors as the rise of nationalism on the one hand and the improvement of the judicial system on the other which, with other factors, were mainly responsible for its fall in other lands,[45] China will claim jurisdiction over these companies before long. In the meanwhile, the whole question of foreign capitalism must be treated with the greatest of caution. Foreign commercial relations in China are peculiarly mixed with a political taint,[46] and any carelessness may result in complications that are international in scope. On her own part, China will do well, first, to avoid any unnecessary harshness on foreign establishments as this will only drive away foreign capital which she so badly needs, and, secondly, properly to recognize the past contributions and the present

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[44] *Recueil de Documents relatifs Aux Assurances Sur La Vie*, Loi du 17 Mars, 1905 (Modifie 21 mai, 1921), Art. 12, page 12.

[45] S. S. Liu, *Extra-territoriality, Its Rise and Its Decline*, pp. 232–234.

[46] J. V. A. MacMurray, *Problems of Foreign Capital in China*, in *Foreign Affairs Magazine*, April, 1925.

services of companies already in the field. It is in a spirit of mutual help and understanding that many of China's foreign problems will be solved.

As far as the foreign companies themselves are concerned, it is perhaps well to point out that unfortunately foreign business men and establishments in China have long been accustomed to doing business in a "high hat", almost insolent, fashion. Whatever their success may have been in cultivating the good-will of the Chinese people with whom they are doing business is beyond the scope of the present analysis; but life insurance can never be sold in that manner. Life insurance depends primarily upon selling, and one of the worst situations that a salesman can possibly develop into is the complex of superiority. Besides, insurance has to do with the future, and in the case of life insurance it is not a matter of weeks and months, but of years and generations. Foreign insurance men should extend their vision far into the future. With their financial strength they are peculiarly fitted to assist in the industrial development of the nation. Only in a strong, commercially developed China can there be a fertile field for life insurance. Apparently all along it has been the maxim of the foreign imperialist to disregard the future but to reap the most he can while the sun shines. Exponents of Western insurance with its embodiment of vision and forethought may well divert from this principle of the imperialist.

CHAPTER VII

Summary and Conclusions

1. Our introductory survey of the business of life insurance in China discloses (1) the predominance of foreign companies; (2) the weakness of Chinese companies; (3) the lack of public records and regulation; (4) the limitation of the business, in kind, to endowments and, in locality, to commercial centers; and (5) the absence of a standard Chinese mortality experience table. Above all, it is found that the volume of business, though not determinable, is apparently small and the business, in general, undeveloped.

2. In our search for the causes underlying these phenomena, many factors present themselves among which are such political, economic and social factors which, being naturally large in scope, can be treated only in a brief manner, particularly with reference to their relation to the business of life insurance.

Of outstanding importance among the political factors are wars and civil strife which, though not necessarily unfavourable at all times since they serve as grim reminder of the necessity for insurance protection, are detrimental to the Chinese business in that they prevent capital from flowing into the business and also affect adversely capital already invested in the business. Boycotts, strikes and other industrial disturbances also prove to be detrimental factors. Boycotts, in particular, hinder the ability of foreign companies to do business. In general, however, too much blame cannot be laid on political factors alone.

3. Economically, China is only a newcomer in the industrial era, but insurance thrives most in a highly developed industrial society. In addition, the study of economics has always occupied a rather secondary position in China's educational, social, political and religious life. Insurance, being an integral branch of economics, is thus relegated to an unimportant position. Finally, there are practical difficulties among which are the lack of communication and transportation facilities, the confusion of

currencies, fluctuations in exchange rates, and conditions of abject poverty among the people.

4. The Chinese family is constituted differently from the Western family. Its emphasis on filialty gives rise to the support of the parents as an etymological, ethical and ethnic institution which considerably lessens the urge for insurance protection on the part of the elders, sapping at the same time the vitality of the youth. A state of interlocking dependency within the family curbs the spirit of the frontier among the constituent members, substituting in the place of insurance the guarantee of protection by the entire family. Blind marriages necessarily mean that the bond between husband and wife is involuntary, and thus the urge for insurance protection as an outgrowth of conjugal love does not exist. The inferior position of woman further adds to this difficulty. Finally, the suppression of the individual, the practice of ancestor worship giving rise to the indiscriminate multiplication of the population, and the spirit of clannishness all react to the detriment of insurance. As a way out adaptation to the present family organization would be fruitful, but the ultimate solution would seem to lie in changing the conditions themselves.

5. Both domestic and foreign companies concentrate their business on endowments, thus stressing the investment element of insurance. While this is supported by substantial reasons, it is unfortunate in that it relegates the protection feature to a secondary position, makes insurance an expensive proposition since the policy-holder is made to pay for two emergencies, is responsible for the growth of a lop-sided sales force, and defeats its own purpose as insurance viewed purely as an investment compares very unfavourably with other forms of investments on the market.

6. There is much confusion and uncertainty in rate-making due to the ignorance of actual mortality conditions. The tables used, of which there are many, are inadequate for their purposes, being all of foreign origin. The rates differ with different companies and also with different places within the country. They are in all cases higher than in Japan, Europe and the North American continent. This, combined with the low standard of

living among the people and the confinement of the business to the expensive Endowment, makes the situation doubly unfortunate.

7. There is the same non-uniformity of policy provisions as found in the West. The contract is often issued in the English language, and quite frequently the foreign version is stipulated to be the sole and entire contract. Production methods employed by the companies as well as by the agents need to be corrected. No adequate training is given to agents; rebating is permitted. Improper methods are used by the agents themselves. Cases are not rare where the beneficiaries are deprived of part of their benefits because "squeeze" is extorted upon them by the agents. Few full-time agents are found on the market, insurance selling being looked upon as *infra dig.*

8. The limited number of medical practitioners is an important hindrance. Professional incompetence and inadequacy, coupled with the prevalence of disease, makes it hard on the companies both "coming and going". Only a beginning is made by some in life conservation work, and its furtherance is absolutely necessary. Non-medical insurance as a relief for the lack of medical examiners is not practicable for the present while the requisite conditions are not yet attained.

9. Besides the above, other difficulties include competition from speculative, semi-speculative "savings" societies, the absence of co-operation among the companies, and the general lack of insurance knowledge.

10. Foreign companies are predominant. They are governed by the statutes of their several governments, extra-territorial arrangements having precluded them from Chinese jurisdiction. In a way, they exemplify the possibilities of stringent government regulation and of integrity of management; in short, they must be credited with many of the services of the pioneer. Unfortunately, life insurance, like marine insurance, must be interpreted as a commercial weapon. As such it cannot be permitted to stay in the hands of alien nationals. Besides, thus far foreign companies cannot be said to have aided to any great extent the development of Chinese industries. Then there are such other counts against them as (1) the disadvantages of extra-territoriality; (2) competition against native companies; (3) charging

disparaging rates between Chinese and white risks; and (4) concentration on foreign white risks. There is dire need for the supervision of these companies, and the absence of such supervision for the present proves to be an important hindrance to the development of life insurance.

The Possibilities for Their Removal

Having enumerated these various hindering factors, the question naturally rises as to the possibilities for their removal. It is frankly admitted that the present thesis does not pretend to offer infallible suggestions for the solution of these many problems. To attempt to do so would be the limit of human conceit. Political and economic problems cannot be solved by hard and fast rules. For the last fifteen years the heart and mind of the entire Chinese race, three hundred million strong, have been intent upon finding a solution, but thus far their search has been to no avail.

There is, however, no call for pessimism. Unquestionably, civil strife can very easily be eradicated by the rising tide of national solidarity. Strikes and industrial unrest, while they will inevitably become more frequent with the industrialization of the nation, are not short of remedies which would probably lie in the direction of arbitration, collective bargaining, and above all, in a good sense of co-operation and sympathy. Boycotts will become less frequent with the cultivation of good will and better understanding between the alien and the Chinese nationals. With the establishment of a stable government, industries will progress at a rapid pace. Capital will flow in from all directions. Many of the practical difficulties will thus be removed. The introduction of machinery and the extension of its use together with improvement in other directions will naturally elevate the standard of living among the people. Finally, the Chinese family as it is still holds many possibilities for insurance. Through educational processes and agitations for social transformation now already fermenting in the country, many of the objectionable ideas and practices will ultimately be eliminated.

As far as insurance problems are concerned, the stress on endowments may be easily overcome. Co-operation on the part of all the companies in furnishing reliable mortality data will at least throw some light on the actual mortality conditions, although due to climatic and other environmental factors, the mortality rates will probably be found to be high and premiums consequently more expensive than North American and European conditions. Unsatisfactory policy provisions could be readily removed either through legislation or from their voluntary abolishment by the companies concerned. Inadequate production methods are eradicable by careful supervision, and will not be resorted to when better knowledge in insurance and salesmanship is attained. Probably for the solution of the medical problems, the whole-hearted assistance of the medical profession must be enlisted. Already much progress has been made in the medical sciences, and the solution of other political and economic problems will furnish added incentive and background for its furtherance. A good sense of co-operation will again furnish the remedy for many of the remaining problems; above all, by working with educational authorities, adequate training in general and technical insurance knowledge should be given which is probably the best agency for accelerating the growth of the business of life insurance. Lastly, and indeed not least, many of China's existing problems of foreign relations can be solved, and are solved, on the true basis of mutual understanding. In similar manner will the problem of foreign life insurance companies find a solution.

Perhaps the above represents too optimistic a picture. But it is well said that every dark cloud has its silver lining. And I cannot but contend that this is no less true with present-day China. Amidst all the chaos and disappointments two outstanding conclusions defy contradiction. In the first place, it is obvious that none of the hindrances thus far narrated cannot be removed. There is perhaps no need for re-establishing this position. Secondly, the only question is that of time. Give China time, plenty of it, and she will accomplish things like the rest. Life insurance, especially, is a matter of decades and

generations. It is built slowly, but steadily, like cathedrals are built. Given sufficient time during which the steady hand of the evolutionist, not that of the revolutionist, will have worked out solutions to many, if not all, of the existing problems, life insurance will, likewise, thrive, prosper, and grow.

APPENDIX I

COMPARISON OF Qx–MORTALITY TABLES USED IN CHINA

AGE	AMERICAN EXPERIENCE	HUNTER'S SEMI-TROPICAL	AM. EXP. X+10	OM (5) X+10	CHINESE EXPERIENCE*	JONES' TROPICAL
20	.007805	.00896	.008427	.00747	.00936	.01174
1	.007855	.00901	.008510	.00762	.00942	.01182
2	.007906	.00907	.008607	.00777	.00949	.01191
3	.007958	.00915	.008718	.00796	.00956	.01200
4	.008011	.00921	.008831	.00816	.00964	.01211
25	.008065	.00929	.008946	.00837	.00973	.01222
6	.008130	.00939	.009089	.00860	.00983	.01235
7	.008197	.00948	.009234	.00886	.00996	.01249
8	.008264	.00958	.009408	.00915	.01009	.01265
9	.008345	.00971	.009586	.00945	.01023	.01280
30	.008427	.00984	.009794	.00978	.01041	.01300
1	.008510	.00998	.010008	.01015	.01059	.01319
2	.008607	.01014	.010252	.01056	.01079	.01342
3	.008718	.01032	.010517	.01099	.01104	.01366
4	.008831	.01052	.010829	.01146	.01130	.01392
35	.008946	.01073	.011163	.01200	.01161	.01422
6	.009089	.01097	.011562	.01256	.01195	.01453
7	.009234	.01124	.012000	.01320	.01232	.01488
8	.009408	.01152	.012509	.01388	.01276	.01526
9	.009586	.01184	.013106	.01463	.01324	.01569
40	.009794	.01219	.013781	.01545	.01379	.01613
1	.010008	.01257	.014541	.01634	.01439	.01665
2	.010252	.01300	.015389	.01731	.01510	.01720
3	.010517	.01348	.016333	.01839	.01585	.01780
4	.010829	.01399	.017396	.01956	.01676	.01846
45	.011163	.01457	.018571	.02083	.01772	.01920
6	.011562	.01520	.019885	.02222	.01882	.01998
7	.012000	.01590	.021335	.02375	.02008	.02086
8	.012509	.01667	.022936	.02541	.02147	.02182
9	.013106	.01752	.024720	.02722	.02305	.02286
50	.013781	.01845	.026693	.02921	.02481	.02401
1	.014541	.01947	.028880	.03138	.02681	.02526
2	.015389	.02061	.031292	.03373	.02905	.02663
3	.016333	.02186	.033943	.03632	.03155	.02813
4	.017396	.02325	.036873	.03912	.03436	.02977
55	.018571	.02477	.040129	.04221	.03753	.03159

* Experience of a Chinese Company on Chinese lives only.

APPENDIX II

Letter 1

February 26, 1927

Mr. Y. Dung,
Philadelphia, Pa.,
U. S. A.

Dear Sir:

I am in receipt of your letter of January the 27th, requesting information in regard to Life Insurance in China. I am returning the questionnaire herewith. I am sorry that it is not possible for me to give answers to your first three questions, as our Office staff here is not sufficient to spare the time that would be required to arrive at these figures.

As far as (*name omitted*) is concerned, we confine our business on Chinese lives strictly to the Endowment Plan. For applicants up to age 45, we are prepared to issue 20 Year Endowments. For applicants from ages 45 to 50, 15 Year Endowment is the longest term we will issue, and from ages 50 to 55, 10 Year Endowments. We do not accept applicants over age 55. These regulations are due to the fact that while individual Chinese live to very old ages, the average length of Chinese lives is much shorter than that of Europeans, and the death rate rises very rapidly after age 50. Our rates for Chinese are also higher than for Europeans, averaging about $5.00 per $1,000 higher in South China, and from $3.00 to $4.00 in North China.

You are quite right in your assumption that Life Insurance has not yet taken its proper place in the economic life of the country. There are many reasons for this amongst which the following are probably the most important:

1. There is still a general lack of appreciation of the benefits of Life Insurance amongst the Chinese. When Life Insurance Companies first started to operate in China, comparatively large amounts were written in a short time, but there was no clear appreciation on the part of the applicants of what they were doing. Much of the business was secured through official pressure. For instance: an unscrupulous agent might secure the favour of the leading official in a city and then secure a letter from him to his subordinate officials, which meant that many of them took policies without any intention of paying more than the first premium. This and other unsound methods did not give Life Insurance a good start. After the first few years it became more difficult to secure Chinese business, and it is only now that Life Insurance is beginning to recover from the mistakes of the early days, and that there is a growing appreciation of its real benefits.

2. Superstition is another obstacle which is also losing some of its importance through the spread of modern education. There are still, however, many Chinese who think it a "bad joss" to insure their lives.

3. The high interest rates which obtain in China is another hindrance. Interest rates vary from 1 per cent to over 3 per cent per month, and therefore comparatively an Insurance policy makes a very poor showing in returns as an investment.

4. Another fact which lessens the insurance appeal is the close organization of the Chinese family. A man does not feel the same responsibility for providing for his family in the event of his death when he knows that in such a case, not only his brothers, but even his uncles and his more distant relatives will be responsible for providing for his family.

5. A number of Local Life Insurance Companies have been started without actuaries or any other insurance experts on their staff. Lacking Government supervision, a number of these Companies have rapidly gone on the rocks with considerable damage to the popularity of Life Insurance.

The above considerations are from the point of view of the insuring public. From the point of view of the Insurance Companies, the chief difficulties are as follows:

1. Lack of vital statistics.

2. Difficulty in securing the personal and family medical history of the applicants. It is only in recent years that modern medical science has been introduced into China, and in the average case, it is usually quite impossible for the applicant to give any definite information as to the nature of the illnesses that he or members of his family may have had.

3. Danger of fraud. Without the closest and most conscientious supervision, Life Insurance Companies in China run considerable risks in this connection through substitution, etc.

The solution to many of the above difficulties is the careful selection and thorough training of a whole-time field force. Up to date, I know of no Company operating in China that has adequately tackled the problem of securing such a field force. There are very few well trained full-time Chinese Life Insurance Agents. The present unsettled conditions of the country make it very difficult to make progress along these lines, but until a body of trained agents is created, Life Insurance can never take its proper place in the economic life of the Country.

I am, etc.,

P.S.—Over 50 per cent of the business we are now writing in China is on the lives of Europeans.

Letter 2

April 27, 1927

Y. Dung, Esq.,
Philadelphia, Pa.,
U. S. A.

Dear Sir:

I much regret I am not able to give you very much assistance in the way of figures, but I may add that I recently sent a circular letter to all the life insurance companies asking them if they would agree to publish their figures to be incorporated in the *China Year Book*. Two of the companies operating here were quite willing but no replies have been received from other companies so that it is impossible again this year to give any authoritative information.

Roughly, I estimate that the amount of new business issued and paid for last year in China, exclusive of Hongkong, was about G.$12,000,000.—of which about half was on the lives of Chinese and the other half was on the lives of Foreigners, principally American and British living in China. Of the above amount, the three Foreign companies probably wrote G.$7,000,000. and the remainder was written by the five Chinese Companies.

Of the business written by the three Foreign companies, about 85 per cent is on the lives of Foreigners and about 15 per cent is on the lives of Chinese.

These percentages are in regard to volume of business. In number of applications I should think about 60 per cent are Foreign and 40 per cent are Chinese, but the average Foreign policy is very much larger than the average Chinese policy.

As to the total amount of life insurance in force in China, all I can say is that the ..... has about G.$33,000,000. in force. This includes the business of two other companies which it took over.

I should think that the above amount of business would represent more than half of the total business in force in China, because the other two Foreign companies have only been doing business in China for a short while and the other companies have, I know, experienced a very heavy lapse ratio.

As Hongkong ranks as a separate division, the figures I am giving you do not include business in Hongkong and Canton.

Briefly, the principal obstructions to the development of life insurance in China are:

1. The Family System under which the family has to support the widow and children of a deceased member of the family. Since the merchant and

the shopkeeper class—which forms the bulk of the middle class in China—employs always the whole of the family in the business, there is usually no definite economic loss when one member dies.

2. Inferior position of women: With the exception of the Foreign-educated Chinese, arguments about protection are quite outside the psychology or understanding of the Chinese.

3. The undeveloped condition of the country, especially total absence of roads and absence of communications.

4. The absence of any considerable middle class salaried population. It is only quite recently that Chinese are occupying positions in firms where they receive a salary which would cease at their death and thus have a definite insurable interest. The bulk of the insurance that is written at present on the lives of Chinese is written amongst this class and among professional men such as doctors and dentists.

5. The experience of most companies in respect of Chinese business has been unsatisfactory as regards mortality, especially at the higher ages; consequently most companies limit the plan on which they will insure Chinese to the 20-year endowment. Since the protection element has no interest to large numbers of Chinese, they only look upon this as an investment, and since, as an investment, the endowment cannot compete with the banks here guaranteeing 11 per cent per annum compound interest, life insurance is looked upon by the Chinese as a very poor sort of business; in fact it is called second-class business.

6. The absence of any proper laws governing and regulating life insurance companies has meant that there have been a number of unsound companies and it is quite an ordinary occurrence for a company to be formed over night, and if it has a bad experience in the first year, it will conveniently disappear.

7. Allied to the above, there is no law whatever controlling life insurance agents and consequently quite a lot of endowment insurance was written in the past by estimating profits that no Company could possibly pay. We are all suffering from Companies who can practically pay no profits at all and whose agents promised that an endowment policy would double itself in 20 years.

8. A great deal of business on the lives of Chinese was written in the past on the strength of the prestige of the Foreigner. It was quite an ordinary practice in the past for an agent to give a big feast and then to insure all the guests, who were frequently under the influence of liquor. Naturally such business not only had a high mortality rate but also a high lapse ratio. Another method in the past was that if a Foreigner had an introduction to a Chinese and called on him, it was practically impossible for the Chinese to refuse to do business otherwise he would lose "face" with the friend who gave him the introduction.

The Foreigner has no prestige in China now and also no Foreign company would tolerate the methods of writing business that were used formerly.

9. Rebating is an accepted thing in Chinese business. I do not think that any business is ever written by Chinese agents without the commission being rebated. This has mitigated to a great extent against the possibility of building up a proper Chinese agency force.

The turnover and wastage in regard to Chinese agents is very high.

All the above criticisms, of course, apply to the development of business among the Chinese.

In regard to Foreign business, I should say that there is very little criticism to be made.

The amount of insurance carried by Americans living in the Orient is, I believe, quite as high as that carried in America and, certainly, the amount of life insurance carried by the British is very much higher than the amount carried in England. This is accounted for, to a large extent, by the fact that British firms only send abroad men of high character and good physique, and therefore Foreign business which is written in the Orient is extremely satisfactory from every point of view.

I am sending you a copy of our prospectus and you will understand that we only insure Chinese on the 10-, 15-, or 20-year endowment plan and also that the policy must mature not later than age 65.

I hope my letter does not sound too pessimistic, but what you really wanted were the reasons why life insurance had not made more progress. We are, I believe, in a transitional period and we hope that from the welter of chaos and disorder will emerge a new China enlightened by contact with the West in which communications will rapidly be opened up with all parts of the country, and if this hope is realized no doubt there will be a great boom in life insurance business here and also in most other businesses.

Yours very truly, etc.,

Letter 3

February 18, 1927

Mr. Y. Dung,
Philadelphia, Pa.,
United States of America.

Dear Mr. Dung:

Your letter of January 12 has just reached me.

I am sending you specimen policies of (name) by separate mail but I am afraid that I cannot give you much "dope" on what you asked for. The

following is what I think the reasons for the tardy development of life insurance in China:

1. The big family system or clan idea is a sort of insurance based not on a legal contract but by ties of blood.

2. High prevailing rate of interest, although the tendency of interest is downward.

3. Preference of real estate to insurance estate, because the former is more tangible.

4. The belief in fatalism or predestination.

5. The gambling spirit of the Chinese make savings societies strong competitors of insurance companies. Savings bonds with the element in appeal to the get-rich-quick "motif".

6. In many instances, forced unpleasant marriages give no appeal to life insurance.

7. No appreciation for college education deters the scale of educational endowments.

8. Low wages and salaries and high cost of living plus the high standard of living for "face" make people unthinkable of the future.

9. Posterity is considered old-age insurance.

10. Past failure of insurance companies shakes the confidence of the public in insurance.

11. No insurance legislation to set standard of solvency, and no insurance commissioner to look after policy-holders' interests.

12. No authority to stop a company known to be insolvent from writing new business. Policyholders and beneficiaries do not make it hot for the company to close either, because our people as a rule do not care for litigation or trouble to press for legal rights.

13. Many companies issue unfair policies with low non-forfeiture values and no extended insurance.

14. Few companies train their agents. Results:

   a. Policies not sold upon merit but upon face—consequently high lapse ratio.

   b. Agents misrepresent or exaggerate participating profits with disappointment of insured in the end.

   c. Agents extort squeeze upon payment of claim by company—no boost of life insurance from beneficiaries.

   d. Appeal to the selfish instinct of prospect by emphasizing so much in return from investment viewpoint instead of emphasizing protection.

   e. Because of defective or unscientific grading of commissions, agents do not sell insurance to meet insurance needs, but to get the greatest amount of commissions.

15. The unknown mortality rate in China makes the companies hesitate to write business under the ordinary life plan. Most companies limit their business to endowment insurance. (1) The rich buy as a luxury or do not want to buy at all. (2) The poor cannot afford because of high rates. (3) The middle-class merchants figure on the abacus and consider insurance as an unprofitable investment. (4) Limitation of business in endowment form obscures the protection service of insurance to dependents by necessarily emphasizing the investment feature of endowment.

16. There are too few companies. Reasons:

(1) Lack of men who know the business and have experience in this line.

(2) Lack of prospective agents because of the general opinion that an insurance man is a peddler.

(3) There is the lack of intelligent investors who have the idealism of starting a sound company to sell sound protection.

(4) Few financiers want to promote a life company because they do not know that a life company can grow to enormous proportions in the way of assets and the financial power of a company with large assets.

(5) No intelligent investors who can look into the future because every company must necessarily lose money the first five years.

17. Few existing companies can last in my estimation, because the men in control of the companies are responsible to no men, accountable to no government bureau. No financial statements are published and even though the published statements show unsound management, no man understands enough to raise a kick or wish to take the trouble to kick. Income minus expenses and claim payments are considered as profits. What is left after paying dividends is set apart as surplus and reserves. You know in America, reserves are set apart as a liability, before you determine whether there is a loss or gain.

Secondly, the reserve is not usually looked upon as a trust fund, but as a convenient fund for the directors and manager to play, to squeeze and to rob.

18. Again there is the lack of insurance education in China. Few colleges offer courses on insurance. Few realize that insurance is a lucrative profession, a scientific business and a sort of social welfare work benefitting the insurance man, the buyers of insurance, and the communities at large. Because of the small number of companies and therefore agents, there is no legion of men, who are daily selling or educating the public up to the values of life insurance in China.

19. In China, fire insurance has a more ready market now. The fact is that the bulk of fire insurance is bought as a business necessity. Both modern

and native banks demand fire policies on loans. In America life insurance, too, has been bought on account of business necessity. But the Chinese haven't learned the protection of business through life insurance. People trust to luck again. If Dr. Huebner has to preach life values vs. property values in America you can imagine what is needed in China.

20. One firm has bought group insurance covering $200 on the life of every employee to anticipate labor trouble. But most business men are still sound asleep. Labor has not learned to ask for workingmen's compensation or other death benefits.

21. No company is selling industrial insurance partly because of the difficulty of starting this kind of insurance and mainly because of the lack of demand. If it is nothing more than funeral insurance, well any poor man can get a coffin free or at reduced rates and he does not have to worry about burial ground you know.

I cannot think of any more off-hand. But I am not pessimistic about the business. Things will change in time. The family system has shown its weakness; the ties of blood are often too feeble. Modern marriages are becoming more in vogue and each small family is striving for financial independence. More people will buy insurance as a business necessity, and more wives and laborers will demand the benefits of life insurance. There is certainly more life insurance sold today than fifteen years ago. Life insurance has come to stay and remember rapid development is merely a matter of time.

Sincerely yours, etc.,

Letter 4

March 14, 1927

Y. Dung, Esq.,
Philadelphia.

Dear Mr. Dung:

In reply to your letter of the 27th ult. I would refer you to my Head Office. My district is only Shanghai and full and complete figures regarding our business in China can only be given you by my Head Office.

I can, however, give you my views briefly as to the reasons of the non-development of the life insurance in China.

1. The family system whereby the remaining relatives look after the family of the deceased.

2. Lack of knowledge regarding the benefits of life insurance. This can only be overcome by education which is a lengthy process and costly.

3. Absence of laws regarding life insurance. Anyone can start a company with or without adequate reserves. No control or audit is made by the Chinese Government. The frequent failures of native companies, and the uncertainty regarding the position of existing companies, causes suspicion in the minds of the insuring public.

4. The high interest rates obtainable on loans and business ventures make the Chinese diffident of insuring, as they do not like to contemplate the possibility of death, and think they can do better with their money than investing in life insurance. There is also a certain amount of superstition.

5. In addition to the above there is of course the general unsettled condition of the country. There has been civil war in some province or the other since the Revolution, and the position is as bad now, if not worse, than any time during that period.

I might add for your information that the greater bulk of our business in Shanghai is written amongst the foreign population. The same applies to other foreign insurance companies, except possibly the (omitted), which has its head office in Shanghai.

A rough estimate of the total amount of insurance written in China by native and foreign companies would be, I should think, around G$15,000,000, probably not as much, and out of that amount G$6,000,000 would be on foreign lives.

One cannot expect real development without law and order, and should life insurance laws be promulgated it is quite possible that they would be such that foreign companies would be forced to withdraw.

Some years ago the Japanese Government issued new laws whereby foreign companies had to invest at least 80 per cent of their reserves in Japan. When these laws came into effect the (omitted) withdrew from Japan. I do not desire to go on record that this was the sole reason, but I believe it influenced them as they retired immediately the laws were to come into force.

Should similar laws be enacted in China, I cannot believe any foreign company would continue to do business, as all investments in China are hardly what one can call "giltedged".

I regret I cannot give you the information required, but I am sure my Head Office will be pleased to do so, and possibly my views given above may be of some slight assistance to you.

I am, etc.,

Letter 5

June 18, 1927.

Y. Dung, Esq.,
Philadelphia, Pa.,
U. S. A.

Dear Mr. Dung:

I am in receipt of your favour of the 23rd ulto. and am glad to hear my previous letter regarding conditions out here was of some use.

In reply to your question regarding mortality of Mongolians as compared to white lives I am not prepared to state what percentage the mortality amongst Mongolians is higher than white lives, but it is undoubtedly higher.

I do not think any company has had sufficient lives on their books to work out exact rates, except possibly the combined experience of the China Mutual and Shanghai Life, who were absorbed by the Sun Life a few years ago.

The main reasons why the mortality is higher are:

1. Inadequately qualified medical practitioners.

2. Bad sanitary conditions, which breed diseases such as consumption cholera and other tropical diseases.

3. The heavy lapses on good risks.

4. The earlier maturity of Eastern races, who are inclined to lose their vitality at an earlier age than Caucasians.

In reply to your second question, formerly we charged the same rates for whites and Chinese, limiting the Chinese to endowments maturing around age 65. Owing however, to the favourable mortality amongst whites, a lower rate is now charged for white risks.

The rate for Chinese is semi-tropical for North China, and for whites a mean between home rates and semi-tropical. I mean by North China roughly above the Yangtse River.

In reply to your third question, the lapsation amongst Chinese is heavy. The reasons for this are as follows:

1. A considerable amount of business is written on "face pidgin". By this I mean a letter of introduction is given to the agent from one Chinese to his friend. This friend probably does not want the insurance, but for the sake of his friend takes a small policy and frequently lapses it next year.

2. Lack of education amongst the insuring public of the benefits of insurance.

3. Lack of knowledge of the business by Chinese agents. It is rare to find a Chinese agent sold to the idea of life insurance as we understand it.

4. The rates of interest on money loaned are very high, 10 per cent a year being a moderate rate, and the Chinese at once starts figuring out how much he will lose by taking out a policy, and it is extremely difficult to impress on him the possibility of his dying within say twenty years. Moreover it is not polite to stress the possibility of death.

At present there are few Chinese agents who have determined to make life insurance their lifelong career. One reason is because it is supposed to be *infra dig* to sell life insurance.

It is extremely disheartening trying to sell insurance to Chinese. I have lately called on several wealthy Chinese who are well educated, and speak English fluently. Some are worth considerably over a million dollars and consider if they carry $5000 or $10,000 they are fully covered.

The methods adopted by some Chinese agents are not good as they obtain their business by trickery, that is, overestimating profits or by forcing the applicant in a position, such as being under an obligation to them, that he cannot refuse. Naturally the lapsation in this class of business is heavy, and an actuary of the former China Mutual told me that on an average the business lasted less than five years on the books.

In reply to your question No. 4, the ..... has not stopped business entirely in North China. It was their intention to stop everywhere except Shanghai, but their manager here visited Tientsin and cabled his Head Office, and they agreed to resume in Tientsin. We are also at present confining our field to Shanghai, Tientsin, and Peking.

This action was taken not by any harsh requirements of the Nationalist Government, but owing to the extra hazard through war, murder, etc., by the troops.

At present the Nationalist Government have no control over the foreign settlements of Shanghai and Tientsin, but should a government be formed in Peking really controlling China it is quite on the cards that laws will be formed whereby regulations will be such that foreign companies may not feel disposed to agree. In view of the chaotic conditions in China it would not be feasible for example to comply with purchasing Chinese securities for say 80 per cent of the reserve as is done in Japan.

To the best of my knowledge our Company has decided to remain in the field.

I am,

Yours truly, etc.,

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